AEB

ASSOCIATION OF EUROPEAN BUSINESSES

Construction Equipment Industry in Russia: Prospects and Developments

organized by AEB Construction Equipment Committee

Перспективы развития отрасли дорожно-строительной и спецтехники в России

организовано Комитетом производителей дорожно-строительной и спецтехники АЕБ

November 22nd, 2010
Marriott Tverskaya, Moscow

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Welcome speech
Frank Schauff, AEB CEO

Приветственная речь
Франк Шауфф,
Генеральный директор АЕБ

Presentation of AEB Construction Equipment Committee (CEC)

David Hill, AEB CEC Chairman, JCB Russia

Представление Комитета производителей дорожно-строительной и спецтехники АЕБ

Дэвид Хилл, Председатель Комитета, JCB Russia

Committee members

Члены Комитета

Committee Structure

Структура Комитета

AEB Construction Equipment Committee was founded in February 2008

Chairman/Председатель: David Hill (JCB Russia)

Vice Chairman/Вице-председатель: Andrey Komov (Volvo Construction Equipment)

Working Groups

- **Statistics**
  headed by Anton Medvedev, Caterpillar
- **Localization**
  headed by Alexey Kuznetsov, John Deere

Рабочие группы

- **Статистика**
  под руководством Антона Медведева, Caterpillar
- **Локализация**
  под руководством Алексея Кузнецова, John Deere

Committee Activities

- Statistics
- Exhibitions
- Import Duty and Customs
- Technical Regulation and Standardisation
- Localisation

Деятельность Комитета

- Статистика
- Выставки
- Импортные пошлины и таможенное оформление
- Техническое регулирование и стандартизация
- Локализация

Thank you for your attention!
Q & A

Спасибо за внимание!
Вопросы / ответы

CEC Statistics Program

Anton Medvedev
CEC Statistics WG Chairman, Caterpillar CIS

November 22, 2010

February 2008 – Russian Construction Equipment Committee was formed within AEB

<u>Statistics exchange</u> – one of the major objectives of the Committee:

- Monthly reports that are helping to estimate market size and trends, customer profiles; format developed based on requests of participants.
- RF region (Federal / Administrative) details.
- Product / size class (ISC standard) details.
- Customer segment details.
- Serial number details to avoid double counting.

Data security:

- Data confidentiality is our priority.
- Participants reporting their sales to the independent data processor - Hargrove & Associates, Inc. (HAI).
- Data collection is done via Net in a way of coded files.
- Only aggregated data is reported back; data of individual companies can not be disclosed.

Statistics exchange participants:

Caterpillar, Chetra, CNH, JCB, John Deere, Komatsu, Kraneks, Liebherr, Terex, Volvo, Wirtgen

Products:

Backhoe Loaders, Skid Steer Loaders, Crawler Loaders, Wheel Loaders, Crawler Tractors, Crawler Excavators, Wheel Excavators, Rigid Frame Haulers, Articulated Haulers, Motor Graders, Pipe Layers, Paving (Cold Planers, Pneumatic Tired Rollers, Vibratory Tandem Rollers, Vibratory Single Rollers)

Coverage:

- For some products coverage is sufficient, for example ArtHau.
- To make coverage sufficient for all products we need more participants to join the program, for example: ChTZ (CrTr, PL, etc.), Hitachi (CrExc, etc.), Amkodor (WL, BHL, etc.), GAZ Group (MG, WExc, etc.), Dormash (MG, etc.), Belaz (RFHau), Bobcat (SSL, etc.), Kurganmashzavod (SSL), Chinese machine manufactures, …
- All construction equipment manufactures are welcome!

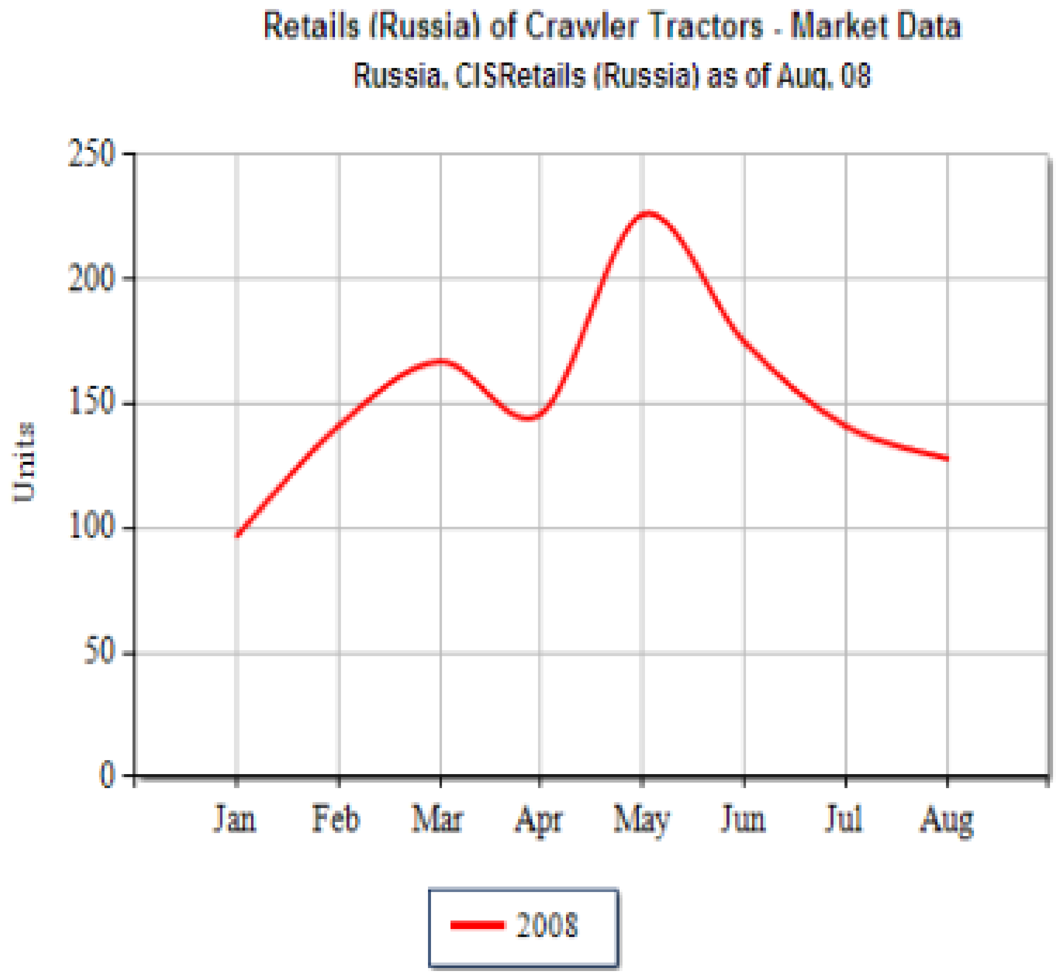
Benefits for joining the program:

- Evaluation of effectiveness of main product line sales promotion.
- Evaluation of effectiveness of new product introduction.
- Access to market statistics of other countries.

Samples of reports available

Helps to estimate market size and trends

TIME SERIES DATA BY PRODUCT



	2008
Jan	97
Feb	141
Mar	167
Apr	146
May	226
Jun	175
Jul	141
Aug	128

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Helps to identify most popular equipment by region

Crawler Excavators Market Data by Size & District

For the Month of Aug, 08

	>1 - 2	>2 - 3	>3 - 4	>4 - 5	>5 - 6	>6 - 8	>12 - 14	>14 - 16	>16 - 19	>19 - 21	>21 - 24	>24 - 28	>28 - 33	>33 - 40	>40 - 50	>50 - 66	>66 - 90	>90 - 150	>150 - 200	>200 - 300	Total
Russia																					
Central																					
This month	-	-	-	-	2	2	2	-	-	4	5	2	8	2	3	-	1	-	-	-	31
Dalnevostoc																					
This month	-	-	-	-	-	-	-	-	-	2	-	-	2	4	-	-	-	1	-	-	9
Moscow,																					
This month	-	-	1	-	-	-	-	-	-	5	5	3	5	2	-	-	-	-	-	-	21
North West																					
This month	-	-	-	-	1	-	-	-	1	-	4	4	1	-	2	-	-	-	-	-	13
Privolzhskiy																					
This month	-	-	-	-	-	-	-	-	-	-	4	2	6	-	4	-	-	-	-	-	16
Sankt-																					
This month	-	-	-	-	-	-	1	-	3	5	9	-	1	1	1	2	-	-	-	-	23
Sibirskiy																					
This month	-	-	-	-	-	-	-	-	-	5	1	-	6	5	7	-	1	2	-	-	27
Uralskiy																					
This month	-	-	-	-	-	-	-	-	-	7	6	2	8	4	19	-	-	-	-	-	46
Yuzhniy																					
This month	-	-	-	-	-	-	-	-	-	7	3	2	-	3	1	-	-	-	-	-	16
Total Russia																					
This month	-	-	1	-	3	2	3	-	4	35	37	15	37	21	37	2	2	3	-	-	202

Helps to understand customer profiles

Customer Segment Distribution of Crawler Excavators Retail Sales

Segment Percentages for Aug 2008

Percent of Market Total

Segment	>3 - 4	>5 - 6	>6 - 8	>12 - 14	>16 - 19	>19 - 21	>21 - 24	>24 - 28	>28 - 33	>33 - 40	>40 - 50	>50 - 66	>66 - 90	>90 - 150	Total
Russia															
Building Construction	0.50	1.49	0.99	1.49	0.99	8.42	17.82	5.94	11.88	4.46	6.44		0.50		60.89
Dealer/Mfg Affiliated Rental										0.50					0.50
Forestry						0.50									0.50
Ind & Comm Material Handling										0.50					0.50
Independent Rental Co					0.50		0.50		0.50					0.50	1.98
Infrastructure - Transportation					0.50	6.44		0.50	1.49	2.48					11.39
Infrastructure - Util & Civ Eng						1.98			1.49	1.49	8.91				13.86
Mining & Quarrying								0.99	2.97	0.99	2.97	0.99	0.50	0.99	10.40
Total	0.50	1.49	0.99	1.49	1.98	17.33	18.32	7.43	18.32	10.40	18.32	0.99	0.99	1.49	100.00

Next steps:

- Increase number of participants.

- Increase number of products reported.

- Reporting on Administrative region level.

- Join Intercontinental Statistics Committee.

Thank you for your attention!
Q & A

Спасибо за внимание!
Вопросы / ответы

- **Technical Regulation in Russia**
- **Engine Emissions Regulation status**

Dmitry Serbin, Komatsu CIS

22nd November 2010

1. Technical Regulation in Russia

1) History

- **Before 2002**

System of Russian national standards (GOST)(mainly based on old USSR standards)

National standard

National standard

National standard

Wheel loaders (46 standards)

- **December 2002 – State Law "On technical regulation"**

(with changes of May 2005, Dec 2007, July 2008, July, November, December 2009)

Are applied on voluntary basis

- National standards
- International standards

Technical regulations

TR is a law. Mandatory for application

- National standards
- International standards

Are applied on voluntary basis

1. Technical Regulation in Russia

2) Background:

- Under the Law 2002, Russian national standards (GOSTs), mainly consisted of old USSR standards, shall be replaced by TR (Technical regulations), new national standards and international standards, registered in the Federal information Fund of Technical Regulations and standards.
- New national standards and TR should be as close to international standards.

  - **<u>TR shall establish minimum requirements for:</u>**
  - **Radiation safety** **- Biological safety**
  - **Safety from explosion** **- Mechanical safety**
  - **Industrial safety** **- Thermal safety**
  - **Chemical safety** **- Electric safety**
  - **Nuclear safety**
  - **Electromagnetic compatibility(for safety operation of instruments and equipment)**
  - **Unified measurements**
  - **Other kinds of safety**

- **TR become the criteria for safety conformity of products**

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1. Technical Regulation in Russia

◆ Characters of TR:

• **TR is a law. It is mandatory for application.**

• The text of TR doesn't include reference to national or international standards. The National standardization Agency before the date of entering TR into the force endorses a list of standardization documents (nationaland international standards) whose application on voluntary basis provides for compliance with TR.

• Any person or company can be developer of new TR.

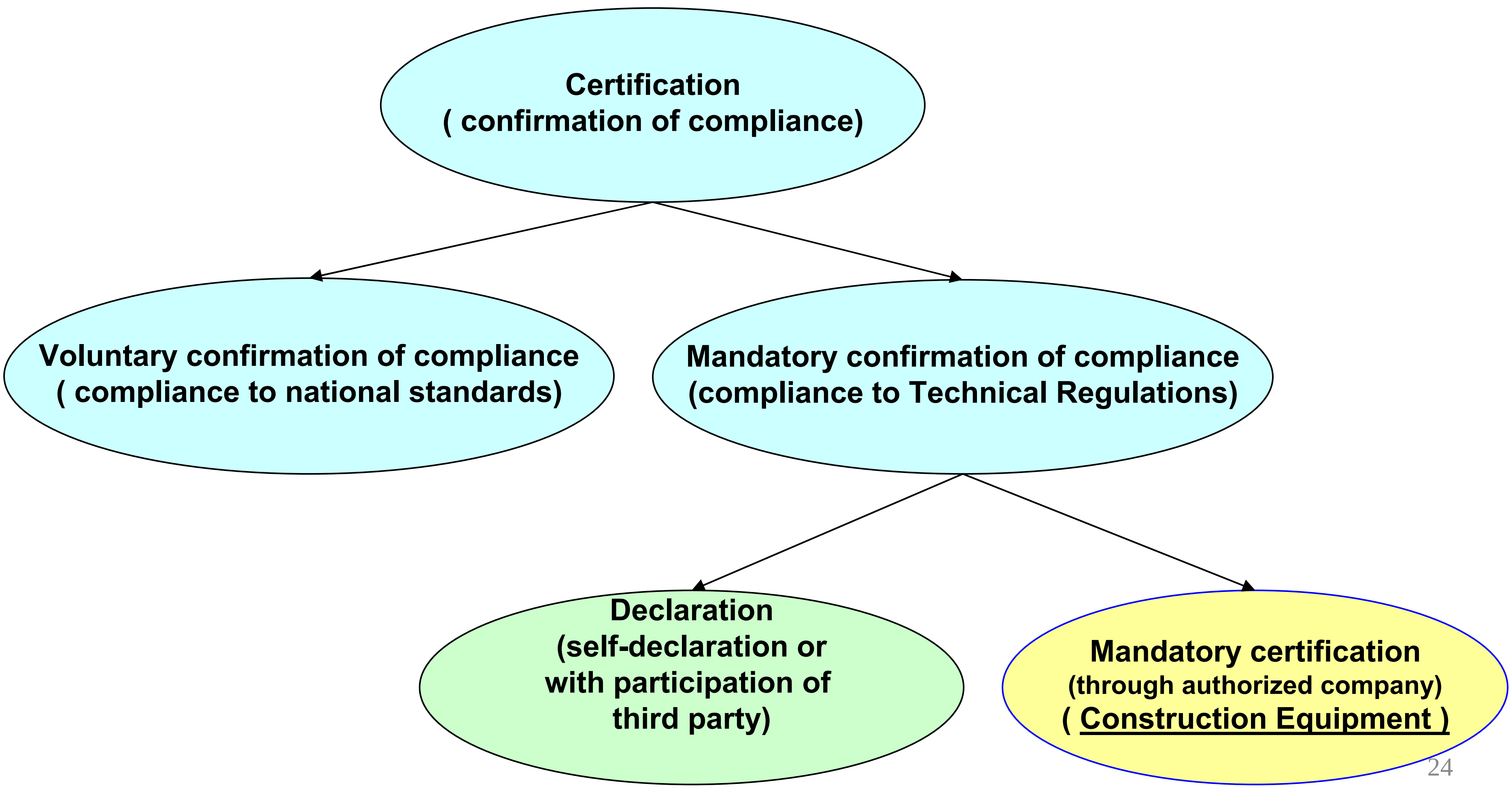
3) Objectives of Technical Regulation:

• To help Made-in-Russia products comply with international standards and increase their quality up to internationally competitive level to promote exports.

• To simplify the product certification procedures, self-declaration was introduced.

1. Technical Regulation in Russia

- **4) Confirmation of compliance**



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1. Technical Regulation in Russia

At the moment 21 Technical Regulations were finalized and approved by Russian Government.
Up to August 2011, 48 more Technical Regulations should be finalized and approved.

◆**Between these TRs the following have relation to Construction Machinery:**

1) TR " About safety of machines and equipment". (based on European Machine Directive 2006/42/EC)
Entered into the force on Sep, 27th 2010.

2) TR " About safety of Low-Voltage Equipment" (based on European Directive 2006/95/EC)
Should enter into the force on Dec, 23rd 2010.

3) TR "Electromagnetic Compatibility" (based on European Directive 2004/108/EC)
The draft is published.

4) TR " About safety of tractors, agricultural and forest machinery".
The draft is published.

◆**Main difference between European Directives and Russian TR:**

All products in Europe require declaration. In Russia is keeping the system of mandatory certification. The share of goods, which require declaration is very small:
(For example: in accordance with annex to TR " About safety of machines and equipment" 105 categories of goods require mandatory certification and only 24 require self-declaration!)

2. Engine Emissions Regulation Status in Russia

1) Passenger cars, Buses, Trucks

Technical regulations No.609 of 02.10.2005

“On requirements for harmful emissions released by motor vehicle equipment to be operated on the territory of Russia"

All road machinery and off-road trucks should correspond to:

- since 01.01.2008 to Ecological class 3(for passenger cars - to UN ECE regulations No. 83-05,A -Euro3)

-since 01.01.2010 to Ecological class 4(for passenger cars -to UN ECE regulations No. 83-05,B, - Euro 4)

Dump Trucks under 560 kW should correspond to Ecological Class 3 (Tier 2) UN ECE 96-01

Government resolution No. 956 of 26.11.2009

"On changes in Technical regulations No.609"

Only road machinery are under the regulation!

Should correspond :

-since 01.01.2012 to ecological class 4(for passengers cars - to UN ECE regulations No.83-05,B, - Euro 4)

- since 01.01.2014 to ecological class 5(for passengers cars - to UN ECE regulations No.83-06, Euro 5)

Dump Trucks were excluded from regulation

2) Off-Road,Construction, Agricultural and Forest Machinery

Agricultural and Forest Machinery:
GOST R 41.96-2005 (UN ECE No.96-01)

" Uniform provisions concerning the approval of compression ignition engines to be installed in agricultural and forestry tractors and in non-road mobile machinery in regard to the emission of pollutants by the engines"

- **Since 01.01.2008 should correspond to Tier II.**

Off-road and Construction Machinery:
GOST 17.2.2.05 and 17.2.2.01

Should correspond to Tier 0!

Thank you for your attention!
Q & A

Спасибо за внимание!
Вопросы / ответы

Heavy Equipment Localization

John Deere experience

Alexei Kuznetsov

22 November, 2010

John Deere in Russia

•First tillage implements sold in Russia in 1880s

•Deere Tractor Exports to Russia 1927-1932 = 8,200 units

•1930 sales to Russia were USD 5.6 Mn (9% of JD total)

•2003 Marketing Branch Office (Moscow)

•2005 JD Orenburg Seeding Factory

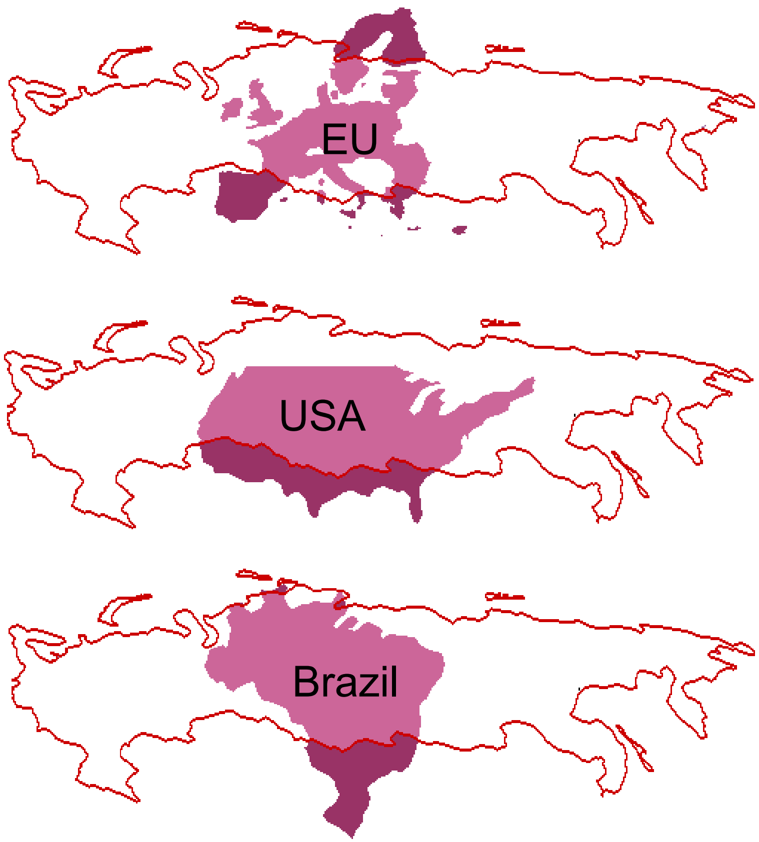
•2010 Manufacturing & Parts Center

The Russian opportunity

Why we care…

- **Capacity to feed a hungry world**
- **Growing infrastructure & construction investment**
- **Tremendous forestry resources**

Tremendous AG Production Potential



		Russia	EU27	USA	Brazil
Agricultural Population	mn	12	23	5	22
Ag Area*	mn ha	215	190	411	264
Arable Land*	mn ha	122	109	170	60
No. of Farms**	mn	0.3	13.0	2.2	5.2

9% of world arable land
11% of world fresh water
Source: FAPRI 2007

	1980	1990	2000	2006
Russian Sown Area	125	118	85	77

In Millions of HA - Source: Russian Ministry of Agriculture

Infrastructure & Construction Investment

Global Growth 1999-2008

7th in Infrastructure

6th in Construction

Forestry Resources

Aligned with Russian ambitions

- Food security doctrine
- Increasing production
- Infrastructure investment
- Adopting technology

Needs to Support Economic Development

- The logic of FDI must be rooted in economic return
- Stability and clarity in policy for long range planning
- Supply base development
- Linkage to Russian Ministries

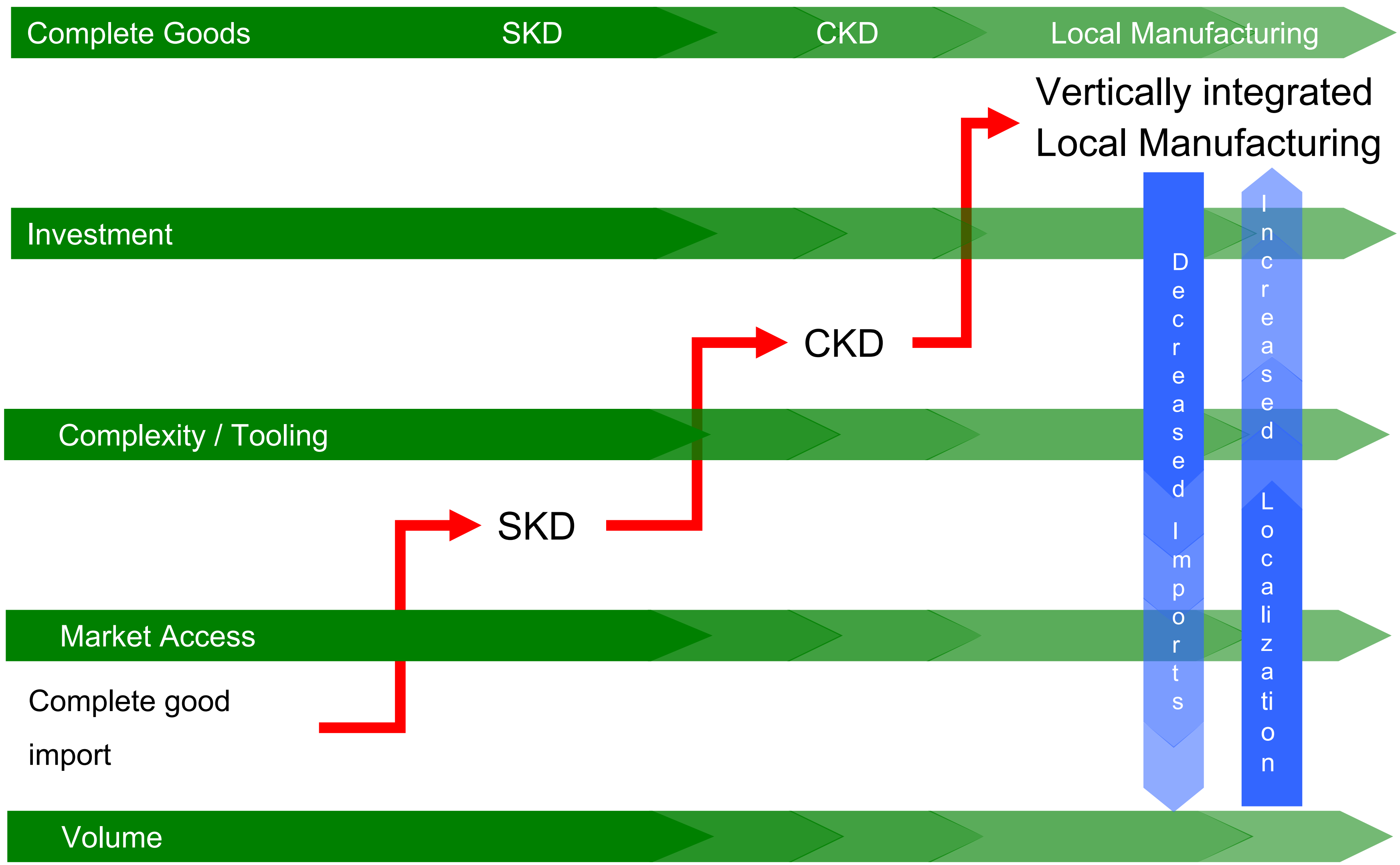
Challenges to Investing in Russia

- Internal competition for the investment projects
- Capital investments reviewed by its returns to corporation
- Other BRIIC countries out of crisis and are growing fast
- Some areas are more “Investor friendly”

Views on Localization in Russia

- JD supports future manufacturing development
- Must be economically attractive
- Need clear “Rules of the game”
- Freedom to chose localization strategy
- Development of Supply base
- Reasonable level of localization

John Deere view of manufacturing development in Russia



Localization Challenge

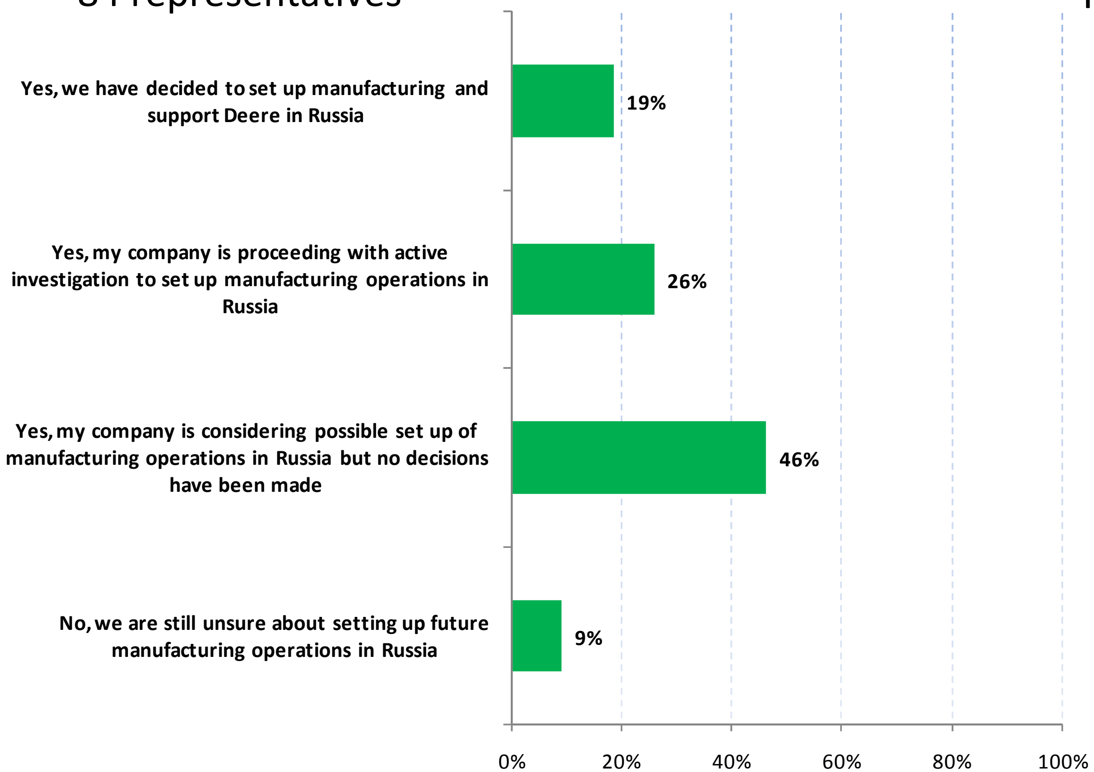
- Complex Equipment
  - 3-10X automobile number of parts
- Low volumes
  - 100-1000X lower than automobiles
- Many machine forms
  - Tractors
  - Crop Harvesting
  - Crop Care
  - Hay & Forage
  - Construction
  - Forestry

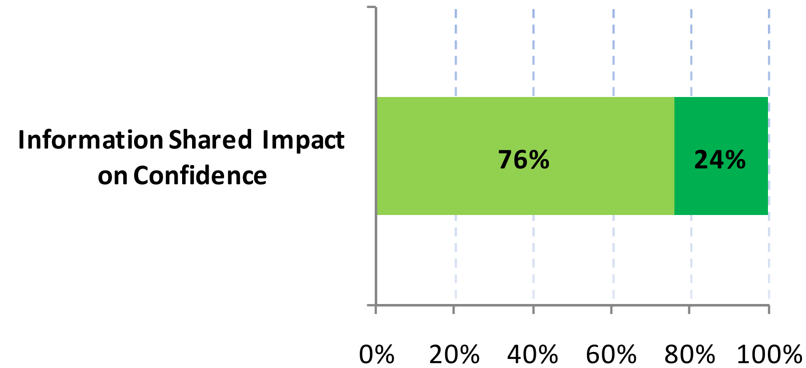
John Deere Strategy for 2011-2015

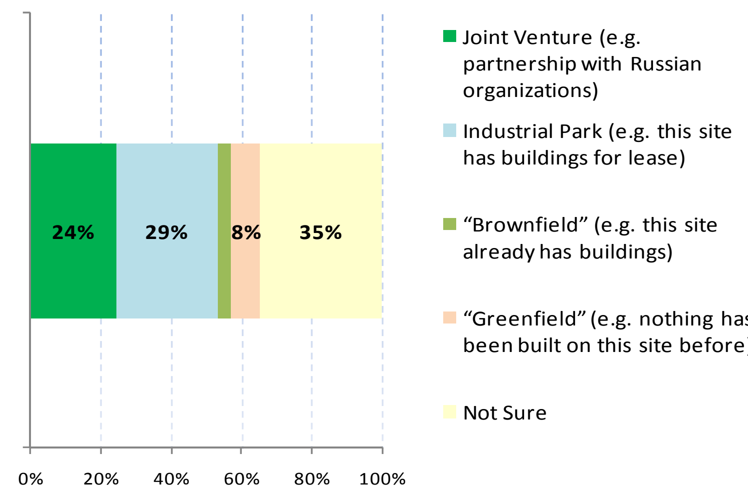
- Focus on latest technology
- Grow manufacturing base to support market need
- Expand existing capacity
- Increase local content
- Grow Supply base
- Start equipment exports from Russia
- Expand John Deere Purchases of Components from Russia

John Deere Supplier Conference

- *Supplier Participation:*
- 46 companies
- 84 representatives







Summing it up

- **Capacity to feed a hungry world**
- **Growing infrastructure & construction investment**
- **Tremendous forestry resources**

Conclusions

- What we offer…..
  - Investment
  - Jobs
  - Broaden economy
  - Support national priorities
  - Modernization and tech transfer
- What we need…..
  - Consistency and transparency
  - National treatment
  - Industry seat at the table

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