Euromoney special report:
Bashkortostan
SIBUR is the leading gas processing and petrochemical company in Russia and Eastern Europe*

Liquefied petroleum gases

Synthetic rubbers

Organic synthesis products

Plastics

Monomers

SIBUR operates on 27 of its own production areas

SIBUR implements products for 1500 consumers

The products are exported to 60 countries of the world

www.sibur.com

*In terms of sale
Contents

Open for business
An introduction by Rustem Khamitov,
President of the Republic of Bashkortostan 2

Macroeconomic focus:
a positive performance 4

Interview: Alexander Maryin 5

Modernizing the oil industry 6

Building on success 8

A warm welcome for international visitors 10

Towards 2015 12

This guide is for the use of professionals only. It states the position of the market as of the time of going to press and is not a substitute for detailed local knowledge.

Euromoney Trading Ltd
Nestor House
Playhouse Yard
London EC4V 5EX
Telephone: +44 20 7779 8888
Facsimile: +44 20 7779 8739 / 8345

Chairman: Richard Ensor
Directors: Sir Patrick Sergeant, The Viscount Rothermere, Christopher Fordham (managing director), Neil Osborn, Dan Cohen, John Botts, Colin Jones, Diane Alfano, Jane Wilkinson, Martin Morgan, David Pritchard, Bashar Al-Rehany, Andrew Balingall, Tristan Hillgarth

Advertising production manager: Amy Poole
Journalist: Lucy Fitzgeorge-Parker
Cover image: Dina Aira
Research guide associate publisher: Melissa Roache
Printed in the United Kingdom by: Wyndeham Group

© Euromoney Trading Ltd London 2013
Euromoney is registered as a trademark in the United States and the United Kingdom.
Open for business

A wealth of natural resources, a strategic location and advanced technological know-how make Bashkortostan a natural venue for business

An introduction by Rustem Khamitov, President of the Republic of Bashkortostan

The republic of Bashkortostan is one of the most advanced industrial regions of the Russian Federation. We are in the top five of large Russian regions in terms of industrial output and agricultural production. In spite of the effects of global crisis, the republic has manifested very positive dynamics of development.

The reason is that our economy is very diversified. Inevitably, the predominant share of input belongs to oil extraction, oil processing and the wider petrochemical sector, but other branches of the economy are also operating efficiently. Machine building and tool engineering are developing, chemical companies are advancing well and we are actively cooperating with large businesses in copper and zinc extraction and processing. Even the agricultural sector is showing positive progress, despite adverse climatic conditions in recent years.

Our region is also characterized by a very low debt burden and we are in the top five Russian regions in terms of credit ratings from international agencies. We are keen to show that our republic is very stable, that it possesses sustainable development prospects, that we are open to businesses and that we support businesses that want to develop their operations in Bashkortostan.

In pole position

Bashkortostan’s location is a key factor in its industrial development, both historically and for the future. We are in the centre of a major industrial zone that encompasses the Volga and Ural regions, a territory that is home to almost one-third of the Russian population. It is a huge market with huge potential, and our well-developed infrastructure and accessibility give us a crucial competitive advantage.

Even during the Soviet era, Bashkortostan was one of the core industrial regions of Russia and the republic has for many years occupied a prominent position on the economic map of the country. Our task is to build on this traditional strength, which has in the past and will in future ensure that Bashkortostan is able to maintain its economic stability even in the face of external turmoil.

What is more, new opportunities are constantly arising. The new international highway from Europe to western China will pass through Bashkortostan and our position midway between the two will offer the potential to export our goods to both east and west. Local businesses are already working on projects to leverage this advantage by exporting agricultural and other products to China, and the new highway will also strengthen our historic ties to Kazakhstan.

Economic diversification

The petrochemical industry is vital to the future of Bashkortostan but its potential has not yet been fully realized, so development of this sector is our main priority. In May, Ufa will host the third annual Bolshaya Khimiya (Big Chemistry) forum, an international event initiated by the government of the republic that brings together leaders in the field from both Russia and abroad. Meanwhile, regional corporate giants such as Bashneft, Gazprom Neftekhim Salavat and Bashkhim are already working on large-scale projects in the region and planning further investment.

Over the next five to seven years, we expect the total volume of investment in the petrochemical sector to reach $10 billion, with the emphasis on high value-added production. The republic itself produces 15 million tonnes of oil a year and we also have the connectivity to import raw materials from the north of Russia and Kazakhstan for processing in Bashkortostan.

We have all the necessary components for the development of a sophisticated petrochemical complex: expertise, research and development facilities, and specialist universities. We have the capability to realize these ambitions and, more importantly, we have the will to do so.

Looking beyond petrochemicals, we are also working on leveraging our significant competence in machine building and tool engineering. The republic is already home to leading manufacturers of oil and gas servicing equipment, helicopters, aircraft engines and passenger buses, and there is huge scope for further investment in the sector.

Bashkortostan’s natural resources also extend well beyond its hydrocarbon and mineral wealth. The republic is one of the top five agricultural producers in the Russian Federation and the national leader in terms of milk production. Meanwhile, extensive and relatively undeveloped forest regions offer significant potential for timber processing and associated industries.

Our beautiful landscapes are another valuable resource and we are actively encouraging the development of Bashkortostan’s tourism industry. Reliable snow cover and accessible slopes make the republic a natural centre for downhill skiing, and we are also looking to promote the renewal and expansion of our well-regarded spa and resort sector.
Supporting investment
All of these industries offer extensive scope for investment. Foreign and local investors are equally important for us and we are working to attract both. Clearly at present, however, external companies have the advantage in terms of efficiency, cost of production and quality of goods, which makes them key to our goal of modernizing Bashkortostan’s economy and achieving higher standards of living for our citizens.

We have passed regional legislation that allows us to offer very significant benefits to investors, from tax breaks to assistance with documentation for new projects. These measures are rapidly establishing the republic’s image as a reliable partner, helped by our hands-on approach to dealing with investors.

In all cases, we do our best to meet the needs of investors coming to Bashkortostan. We are prepared to invest heavily in both time and resources to ensure that businesses find a positive atmosphere for development in the republic, whether that takes the form of establishing an industrial park or free economic zone, or simply smoothing the process of procurement.

I personally meet foreign investors, both large and small, and personally guarantee that they will find conducive conditions for investment, predictability in the terms of cooperation and a positive working attitude in Bashkortostan. Our recent success in attracting sizeable investment projects in industries such as machine building, timber processing and petrochemicals is proof that investors greatly appreciate the honesty of our interaction with them and have confidence in the credibility of the regional government.

We have also forged strong links with local companies and enjoy the support of the republic’s business community. We have been working hard for the past three years to improve the environment for business in Bashkortostan and our local partners confirm that we have already made significant progress towards our goals.

In addition, we are taking steps to ensure that investors from within and outside the Republic find the same level of support at both regional and municipal level. We are actively promoting a culture of open-mindedness towards and positive engagement with private sector investors throughout the various tiers of administration.

Small is beautiful
It goes without saying that small and medium-sized enterprises (SMEs) are very important for any economy and developing this sector is a priority for us in Bashkortostan. We have a unique opportunity here to nurture smaller companies that can work in synergy with our leading industrial firms in sectors such as petrochemicals and metallurgy.

Our task in government is both to encourage large-scale producers to establish cooperation with SMEs and help smaller firms find opportunities for collaboration with their bigger counterparts. We want to see larger companies surrounded by hundreds or even thousands of SMEs that use their products as the raw material for their manufacture of high value-added goods such as plastics. We are working to facilitate the development of industrial parks in the vicinity of key producers, via a number of initiatives including the investment of state funds.

Bashkortostan is already home to a large number of successful SMEs but there is still work to be done to achieve western levels of entrepreneurship. Establishing positive and sustainable interaction between large- and small-scale business is a complex managerial task, but one that is crucial to the modernization of our economy.

Another top priority for the government is the development of Bashkortostan’s human capital. The republic is already home to some of Russia’s most advanced universities, which between them address all of the region’s needs in terms of industrial production and the agricultural complex, and we are working to develop these institutions further to ensure that our most talented high-school graduates remain in the republic.

A warm welcome
If further proof were needed of both the republic’s national importance and the hard work already undertaken by the government and people of Bashkortostan, it has been provided by the selection of our capital, Ufa, as host for the BRICS and Shanghai Cooperation Organization summits in 2015.

These events will not only demonstrate that the republic’s infrastructure is capable of coping with the demands of large delegations from diverse countries but also provide an invaluable opportunity for us to promote Bashkortostan in terms of the global economy and global business.

Making guests feel at home is a key part of Bashkortostan’s traditional culture and we look forward both to extending a warm welcome to our established partners such as India, China and Kazakhstan and to establishing links with new markets in other growth regions.
Bashkortostan’s economy has been one of the best performing in the Russian Federation in recent years, thanks to a combination of a high level of industrialization, strong credit ratings and conservative budget management.

The republic weathered the 2008 global financial crisis well, with gross regional product (GRP) dipping by just 1% in 2009, compared to an average of 6.8% across the Russian regions and rebounding by 5.2% the following year, compared to average growth of 4%.

Bashkortostan continued to outperform in 2011, posting GRP growth of 8.2%, more than twice the national rate of 4.3%. A recovery in the agricultural sector following a severe drought in 2010 boosted the expansion but the primary driver was an increase of 9.4% in industrial output.

Estimated growth for 2012 of 5% is also well ahead of the 3.4% recorded by the Russian Federation as a whole and will take Bashkortostan’s GRP past the R1 trillion ($31.7 billion) mark for the first time. Evgeny Mavrin, one of the republic’s deputy prime ministers, says that since 2010 Bashkortostan’s economy has grown by nearly 20% – an impressive achievement in the context of continuing uncertainty in global markets and returning recession across much of Europe.

This strong performance is expected to continue through 2013 and 2014. Independent analysts forecast annual growth for the republic of around 6% over this period on the back of an expected annual increase of inward investment of as much as 9%.

This strong growth performance in Bashkortostan has not been accompanied by an increase in inflation thanks to careful economic management. In 2012 the republic posted annual inflation of just 6.2%, the lowest rate since the end of the Soviet era. Inflation is also expected to remain below the national average this year.

Resilient industries

Bashkortostan’s good growth performance is down to several factors. The most obvious of these is resilience of its oil production and processing, which account for more than half of industrial production, over the past five years. But Bashkortostan’s economy is more diversified than that of the majority of oil-rich regions in the Russian Federation. The machine building, agriculture, construction and services sectors all make a significant contribution to the republic’s overall output.

Bashkortostan is also in the fortunate position – rare among Russian regions – of having favourable demographics. Bucking the national trend, the republic’s population has shown a slight increase since 2008 and has now stabilized at around 4.07 million. Meanwhile, unemployment had fallen to 6.1% of the total workforce by the end 2012 from a high of 9.3% in 2009.

Positive outlook

All these factors combined with a low debt burden are reflected in the region’s credit ratings from Moody’s and Standard & Poor’s with ratings of Ba1 and BB+ respectively – only one notch below investment grade – and both have categorised the rating outlook as positive.

Furthermore, Standard & Poor’s cites Bashkortostan’s “prudent financial policies” as a factor in its as signation of a positive outlook to the rating. The agency also notes that increasing operating surpluses to above 10% and keeping deficits below 3-4% would justify an upgrade on the republic’s rating to investment grade.

Moody’s similarly commends the government’s “conservative approach to budget management”, and says that the republic’s fiscal management is “continuing to evolve towards greater predictability in key indicators, thanks to the implementation of three-year budgets, adequate budget planning and a moderate spending policy”.

Positioned for growth

For President Rustem Khamitov, maintaining a strong credit rating is key to the positioning Bashkortostan on the global economic map. “We believe it is a positive signal to potential investors because it is a clear indication of the stable development of the region,” he says.

Deputy prime minister Mavrin gives much of the credit for the recent resilience of the economy to the investor-friendly policies initiated by President Khamitov since his appointment in July 2010. “The belief in a new team has helped to improve the overall situation,” he says. “We announced a new economic policy of openness and we have been removing the barriers to investment. We are now ready to welcome investors from both the Russian Federation and abroad, and we are targeting rates of investment of close to 29% of GRP in the coming years.”
Interview: Alexander Maryin

Minister for economic development Alexander Maryin tells Euromoney how Bashkortostan’s policy-makers are working strategically to realize the region’s economic potential.

Q: How has Bashkortostan’s economy fared since the global financial crisis?

Bashkortostan is an industrial and agricultural region with a large economy and a potential for development that has been underused. The region has a fairly balanced economic structure, which contributed to overcoming the recent economic crisis. During the period from 2008-09, the situation in the republic improved, as compared to other regions, thanks to a much weaker recession. According to the results for the first post-crisis period in 2010, the economy of the republic was the tenth largest among the regions of Russia. At that time, nominal gross regional product (GRP) amounted to R757.6 billion - about 2% of the consolidated figure for Russia as a whole. Today, with the results for 2012, the value of GRP exceeds R1 trillion and, according to our estimates, this will put us among the top five regions of Russia.

Taking into consideration the global financial crisis, in the real sector of the economy we have managed to maintain our leading position in many areas among the regions of Russia.

Q: In its economic development Bashkortostan stakes its future on petrochemical production and oil and gas refining. What are the prospects for these industries? In spite of the balanced structure of the economy, the main specialization of Bashkortostan is oil production and oil and petrochemical refining. Manufacturing activities form about 30% of the GRP, while oil production amounts to 10% on average. Thus, extractive industries play an important but not decisive role in the economy of Bashkortostan.

Q: What is the key attraction of investing in Bashkortostan for foreign investors?

Within the field of investment we are seeing a lot of interest from Chinese manufacturers, as is evident from their placing business in our region. European and Central Asian investment funds are interested in projects in sectors such as manufacturing, agriculture and ecology.

Bashkortostan’s foreign trade is one of the most important factors shaping the structure, dynamics and stability of the economy. Having an effective system of foreign economic relations, allowing the positioning of Bashkortostan in the world economic arena, is one of the basic conditions for the successful development of the region. The foreign trade turnover of the Republic of Bashkortostan in 2012 amounted to $13,804.2 million.

Bashkortostan as a region is open to discussions with investors. Currently, the republic has 744 enterprises created with the participation of foreign capital, as well as 193 branches, 31 representative offices and 47 separate (sub-)divisions of foreign companies.

Q: Where do you see Bashkortostan’s economy in five years’ time?

In these unstable conditions, it is difficult to predict accurately the economy’s performance over five years. However, through the strategic policy decisions that we are adopting today aimed at developing the recovery process – namely the stimulation of economic sectors, social services and regional development – we see the economy of Bashkorstan boasting strong economic potential. By creating a self-sustaining model for the region, we will have a steadily growing economy.
Modernizing the oil industry

Bashkortostan’s leading economic position among the regions of the Russian Federation is based in large part on its mineral resources, and above all its petrochemical industry. The extraction of crude oil in the republic began in 1932 and, following the discovery of sizeable oil deposits in the 1940s, Bashkortostan rapidly established itself as one of Russia’s principal centres of oil production. Today the region produces around 15 million tonnes a year, making it the third largest oil producer in the country. The republic also produces other fossil fuels such as natural gas, coal, lignite and peat.

The oil production sector is dominated by local company Bashneft, which accounted for 99.2% of the regional output in 2011. Bashneft – which in 2009 became part of the Sistema Group – still derives 90% of its oil production from Bashkortostan, primarily from the main Arlan, Tuimazy and Sauzbashevsrom oil fields.

But as Bashkortostan’s oil industry matures, Bashneft is starting to explore other locations. The company recently commenced production at the Trebs and Titov oil fields in the Arctic region of Nenets, and in November 2012 finalized a deal with the Iraqi government to develop new oil fields in the latter’s southern provinces.

Bashneft has earmarked an annual $1.2 billion to invest in the development of new business in the years to 2016. Fitch Ratings estimates that by the end of the period the company will have boosted its oil output to around 326,000 barrels a day, a 7.9% increase from 2011 levels.

World-class refineries

The majority of Bashneft’s oil will then be processed by Bashkortostan’s world-class oil refineries. The region processed 27.5 million tonnes in 2011, and currently has a total capacity of 30 million tonnes per year. Leading companies include Bashneft subsidiaries Ufa Oil Refinery, Novoil and Ufaneftekhim – which together accounted for 21 million tonnes of output in 2011 – and Gazprom Neftehim Salavat, part of the Gazprom Group.

As with the majority of Russia’s traditional centres of oil production, the challenge for Bashkortostan today is to counterbalance declining yields from ageing oil fields with a move towards higher value added production. At present, Russia produces only a couple of hundred of the thousands of petrochemical products that it uses, while the rest are made in Europe and Asia, often using raw materials from Russia.

As Yury Pustovgarov, president of Bashkortostan Chamber of Commerce and Industry, says: “We already have the biggest oil processing complex in Russia but the added value of our products is currently in the region of 20%, whereas that of the products we import from Europe can be as much as 200%. Our strategic task, both in Bashkortostan and the Russian Federation, is to take control of this higher value added chain and reduce our dependence on expensive imports.”

Policy-makers at national and regional levels agree on the necessity of developing deeper processing and downstream operations, and Bashkortostan’s existing technological expertise means that it is ideally placed to take the lead in this field. The republic is one of the most advanced in Russia in this sphere thanks to a range of research and training institutions, including the renowned Ufa State Petroleum Technological University.

Platform for development

Ways in which to expand the range of high value added production of the Bashkiri and Russian oil industry will be a key theme of this year’s Bolshaya Khimiya (Big Chemistry) event. The forum was established in 2011 by the government of Bashkortostan to provide a focal point for the discussion of the future of Russia’s petrochemical complex and this year more than 500 delegates are due to attend the international event in Ufa on 23 May.

“We took the decision to create the Bolshaya Khimiya forum in order to attract attention to the challenges for the petrochemical industry in Russia,” says Evgeny Mavrin, one of the republic’s deputy prime ministers. “It provides a
valuable platform for the discussion of strategic development and for large businesses in the sector to coordinate their efforts to move towards higher value added production.”

Bashkortostan’s larger companies have already announced substantial investment in new downstream projects. Bashneft established the United Petrochemical Company (UPC) in 2011 for the production of a range of new petrochemical products and ethylene. A substantial part of UPC’s facilities will be based in Bashkortostan. Work is due to start next year on a $3 billion plant for the production of ethylene that is expected to come on line in 2015.

Similarly, Gazprom Neftehim Salavat has announced plans to invest $3 billion in various new downstream operations, including a catalytic cracking unit. It is exploring the potential for establishing a plant for the production of acrylic acid. These investments have been warmly welcomed by the regional government. “In order to be able to compete with their European and Asian counterparts on quality and price, our petrochemical companies need both to modernize their existing facilities and to broaden the scope of their operations,” says Mavrin. “The initiatives announced by companies such as Bashneft and Gazprom Neftehim Salavat are a key part of the drive to update Bashkortostan’s petrochemical industry.”

Beyond hydrocarbons

Hydrocarbons are far from Bashkortostan’s only mineral resource. In total, 60 different types of minerals occur naturally in the republic, from metals and ores to semi-precious stones. More than 3,000 mineral deposits are distributed across the region, providing the base for a thriving minerals industry that includes ferrous and nonferrous metallurgy, the chemical industry and building materials. Bashkortostan accounts for 10-12% of overall copper production in the Russian Federation and 30% of production in the wider Ural region. It is also a leading producer of zinc, gold and silver, and in addition boasts deposits of aluminium, iron and manganese.

Non-metallic minerals are also well represented. Bashkortostan is the national leader in the extraction of rock salt, producing 27% of the total for the Russian Federation. Other deposits include such essential raw materials for the chemical industry as fluorspar, limestone, barite and sulphur, as well as phosphorous rocks, carbonates, zeolites and glauconite. Key companies in the sector include Soda, the largest producer of purified sodium bicarbonate in the Russian Federation and the fourth largest in the world. Founded in 1945, Soda – based in Sterlitamak, 120km south of Ufa – manufactures more than 100 chemical products, construction materials and household chemical goods.

Today the company is part of the Bashkirian Chemistry Group (Bashkhim), which was established in 2005 to coordinate the activities of a number of chemical and petrochemical enterprises in Bashkortostan and beyond. Other businesses within the group include Sterlitamak-based Kaustik, which accounts for 20% of all caustic soda production in Russia and 29% of PVC production.

Nurturing a new generation

Mavrin and other regional policy-makers stress, however, that the development of an advanced petrochemical complex in Bashkortostan will require input from smaller firms as well as the established market leaders. The regional government needs to nurture a new generation of smaller, hi-tech enterprises that can process the raw material produced by larger firms.

Dmitry Sharanov, another deputy prime minister, says: “Small companies can be nimbler and more creative, and are therefore able to develop new products with much more readiness than their larger counterparts. Smaller companies tend to be the drivers of cutting-edge industrial development internationally, and that’s why it is important for us to encourage the development of a network of small petrochemical firms in Bashkortostan.”

The aim of the regional government is to see each of Bashkortostan’s petrochemical giants surrounded by a huge infrastructure of small and medium-sized firms that use their products as the raw material for the manufacture of high value added goods such as plastics.

“Around each large enterprise we need to encourage the appearance of a network of smaller companies involved in deeper processing,” says Mavrin.

Mavrin says the republic needs to rediscover the Soviet-era mechanism of having technological chains of petrochemical production involving a range of different companies. “It’s inefficient for one company to manage a whole production chain so we need to understand where we can create connections and encourage firms to work together,” he says.

Initially, most of the oil to feed Bashkortostan’s petrochemical complex will come from within the republic. An expected decline in local production over the medium term, however, is not seen as a bar to the development of the industry, thanks to both the anticipated increase in production at Bashneft’s newer fields and the republic’s excellent transport links, which will facilitate the import of raw materials from areas including northern Russia and Kazakhstan.

The initiatives announced by companies such as Bashneft and Gazprom Neftehim Salavat are a key part of the drive to update Bashkortostan’s petrochemical industry”
Building on success

A host of sectors from machine engineering to tourism offer huge scope for the development and further diversification of Bashkortostan’s economy

Developing Bashkortostan’s petrochemical complex is a priority for the regional government, but policy-makers are also well aware that diversification is essential for the long-term health of the economy. Fortunately, the republic already has well-established competence in a wide range of other industries, from engineering and construction to agriculture and tourism.

Of these, the most significant and fastest-growing is machine building and mechanical engineering. The sector already accounts for more than 10% of industrial output and is a key focus for foreign investment, with global giants such as General Electric, Safran and Alstom establishing joint ventures and cooperation agreements with local companies in recent years. Exports from the sector have increased by an average of 5% a year over the past 10 years and the pace of growth is expected to be maintained and even enhanced over the next decade.

Bashkortostan’s expertise is based in part on its position as a historical leader in the defence industry, particularly in the manufacture of aircraft engines. The first jet engines in the Soviet Union were produced by the Ufa Engine Industrial Association (UMPO), founded in 1925. The company is still the largest aircraft engine producer in the Russian Federation. UMPO also manufactures a broad range of other products, including tractor and automobile parts, gas pumps, turbines and cutlery, as well as providing maintenance and support services for its clients.

Other companies involved in the aviation sector include the Kumertau Aviation Production Enterprise (KUMAPE), which makes helicopters and related equipment in the southern city of Kumertau. Both UMPO and KUMAPE, as well as the wider aviation sector in Bashkortostan, are strongly supported by the technological expertise and world-class training provided by the Ufa State Aviation University.

Driving growth

In addition to aviation, Bashkortostan is a national leader in the production of passenger coaches and trolley buses. The Bashkir Trolleybus Manufacturing Plant, based in Ufa, was established as early as 1979, while passenger coaches are produced in the north-west of the region by the Neftekamsk Automobile Plant (NefAz). The republic is also home to leading utility truck manufacturers, such as the rapidly expanding Tulmazinsky Concrete Delivery Truck Works, which almost doubled annual sales in 2011 from the previous year.

Other prominent engineering companies include automobile parts manufacturer BelZAN, based in the west of the republic close to the city of Oktyabrsky, and metal-cutting machine tools manufacturer Sterlitamak MTE. The south-eastern centre of Beloretsk is home to one of Russia’s top three hardware producers. The Beloretsk Metallurgical Plant – part of the Mechel group – is a leading manufacturer of cutting-edge products including high-strength wire, micro wire and hot-rolled carbon products, which it exports to more than 30 countries worldwide.

Building on this existing competence, Bashkortostan’s policy-makers are looking to promote expansion into a variety of new sectors, including light aircraft and automobile production. “We possess very important and unique know-how in machine building and tool production, such as stressing metal services and precision finishing,” says President Rustem Khamitov. “As a result, we are ideally positioned to develop new projects and explore new areas of industry.”

Related areas of development include radioelectronics, an industry that has grown up alongside the aviation manufacturing sector in Ufa. Companies such as PS-UFA produce a variety of electronic devices and electronic manufacturing services for the telecommunications industry, a market that is worth several billion dollars in the Russian Federation alone. The government of Bashkortostan is targeting further development in the sector.

Agricultural leader

Bashkortostan’s other traditional strength is agriculture. The republic has 7.1 million hectares of agricultural land, accounting for more than 3% of the national total, and is in the top five regions of the Russian Federation for agricultural output, thanks to a dominant position in the dairy and meat industries.

Bashkortostan has 1.3 million head of cattle, more than any other Russian region, is one of the country’s top two milk producers and also produces grains including wheat, rye, oats and barley. Beekeeping is also a local speciality: Bashkir
honey has a national reputation. Agriculture is already in the process of extensive modernization, involving both the transition from smaller private units to larger plants and the implementation of new industrial processes. President Khamitov, however, insists this is only the start of the process of bringing the agricultural sector into the 21st century.

“If we are to retain our position as one of the leading agricultural producers in the Russian Federation over the medium to long term, we need to establish new competences in the spheres of deep processing of agricultural products such as grain,” he says.

Policy-makers see Bashkortostan’s existing agricultural strength as a key building block in the republic’s drive to expand its nascent biotechnology sector, with the support of institutes such as the Bashkir State Agricultural University in Ufa. “Biotechnology is a priority for both the Russian Federation and Bashkortostan, and it’s an area we have historic competence in, so we are prepared to dedicate significant resources to its development,” says deputy prime minister Dmitriy Sharonov.

Yuriy Pustovgarov, president of the Chamber of Commerce and Industry, says Bashkortostan also has a unique opportunity to establish itself as a centre for specialist agricultural sectors such as halal meat and organic produce. “We have a competitive advantage in the field of organic production and we must build on that,” he says.

Processing potential

Bashkortostan’s natural resources also include extensive forests. More than one-third of the territory of the republic – an area of around 62,000 sq km – is forested and the timber stock is estimated at 718 million cubic metres, with key varieties including birch, lime, oak, maple and conifers.

The timber processing sector, which was relatively neglected during the Soviet era, offers huge potential for development and the regional government is already making significant progress in encouraging investment. In August 2012, President Khamitov signed an agreement with Kronospan Holdings East, a subsidiary of Austrian wood processing giant Kronospan, for the construction of a plant for woodworking and the manufacture of construction materials in Ufa.

The plant will involve an investment by Kronospan of up to R6 billion and is expected to start production of oriented strand board (OSB) in 2014. This in turn, says Khamitov, will help to encourage the development of associated industries in the region, from the manufacture of glues and additives for furniture production to the final manufacture of wooden furniture.

Natural beauty

Also ripe for further development is tourism. With its own international airport and flight times of less than two hours from Moscow, the republic is easily accessible to visitors from Russia and beyond, and its spectacular and diverse landscapes make it a natural tourist destination.

More than 13,000 rivers criss-cross the region, including the Belaya and Ufa, and Bashkortostan also boasts more than 2,000 lakes. The southern end of the Urals mountain range runs along the eastern edge of the republic. “Not only do we have a great deal to offer in terms of natural beauty, but it’s also very compact,” says Salavat Sagitov, deputy prime minister. “Within an hour’s drive, visitors can have access to mountains, lakes and rivers.”

This natural beauty, combined with the presence of more than 50 sources of mineral waters and medicinal mud, has ensured Bashkortostan’s popularity as a destination for health tourism since Soviet times. Sanitoria and spa resorts including Yangantau, Krasnousolsk, Assy, Yumatovo and Yaktykyly have a national reputation and have seen a renewed influx of visitors in recent years – indeed, most are running at close to 100% occupancy.

Further development and promotion of the sector is a priority for the government, as is the nurturing of the rapidly expanding sports tourism industry, President Khamitov – himself an accomplished skier – says: “We have numerous mountains that offer the opportunity to ski for six to seven months of the year, so the development of a downhill ski complex is something we are actively encouraging.”

The republic is already home to two downhill ski facilities, both within an hour of Ufa, with 12 slopes in total, recently developed with an investment of R200 million. These formed part of the infrastructure that enabled Bashkortostan to host the International Children’s Winter Games in February and March this year, featuring 800 participants from 20 countries competing in seven events. “We like to say that Sochi 2014 [next year’s Winter Olympics] started in Ufa,” says Sagitov.

Smart solutions

Whether the sector is tourism or hi-tech engineering, however, one principle underlies all the development initiatives of Bashkortostan’s government, according to deputy prime minister Evgeniy Mavrin. “If there is one word that I would like to see in future used to describe the distinguishing features of our region’s development,” he says, “it would be ‘intelligent’.

“My ambition is to promote the development of ‘intelligent’ or ‘smart’ solutions across all sectors of our republic, which can provide both substantial tax streams for Bashkortostan and great opportunities for its people. As we see it, the main mission of a government is not merely to enable our citizens to satisfy their day-to-day needs but to help them to achieve self-realization and self-development.”
A warm welcome for international visitors

A raft of new measures has created a uniquely welcoming environment for investment in Bashkortostan and international firms are taking note.

Bashkortostan should be a natural location for business as it is rich in natural resources, has easy access to both European and Asian markets and a highly skilled workforce. And now the new leader of the republic, President Rustem Khamitov, has made attracting investment a strategic priority since taking office in July 2010.

Khamitov’s administration has introduced new legislation enabling it to offer an array of financial incentives to both potential and existing investors in the republic, whether from Russia or beyond. These include generous reductions to income and property taxes, as well as land grants, subsidized interest rates, co-financing of leasing payments and the provision of state guarantees to undertake loans.

The body behind these changes is the newly created Corporation of Development of the Republic of Bashkortostan. Established in December 2010, the corporation has a broad remit that includes securing new inward investment, implementing government-approved investment projects and liaising between the government and local authorities in relation to priority projects. The institution has a budget of R65 million.

Infrastructure assistance

The Bashkortostan administration is also courting new investment by providing services and infrastructure on plots of land being sold for development. “If an investor has a site for development, we will do our best to ensure that they have everything they need for their operations, from road or rail connectivity to electricity and water supplies,” says Evgeny Mavrin, one of Bashkortostan’s deputy prime ministers.

Regional authorities are similarly keen to ensure that incoming investors will use local business support, and are trying to foster links between investors and local businesses by establishing industrial and technological parks. President Khamitov says the 2011 joint venture between France’s Alstom and local company RusHydro to manufacture hydropower equipment at a new plant outside Ufa shows how international investment can benefit the republic’s manufacturing industry.

The new facility will produce equipment for small and medium sized hydropower plants and pump storage plants, as well as auxiliary equipment. It is expected to start production by early 2014. As part of the development, the government has put together a pool of resources to fund a $30 million technopark for the establishment of a research and manufacturing cluster around the site.

“This is just one of many examples of the way in which we go the extra mile to fulfil the requests of potential investors,” says Khamitov.

One-stop shop

Policy-makers also stress the importance of having a single, easily accessible information and contact point for incoming businesses. “We have effectively established a one-stop shop where investors can obtain assistance with every aspect of their requirements, from business registration and construction permits, to financial support and tax breaks,” says Mavrin.

Valuable support is also provided by Bashkortostan’s Chamber of Commerce and Industry (CCI), under the auspices of its president, Yury Pustovgarov, a deputy prime minister and former Ufa Engine Industrial Association (UMPO) manager. The CCI is working closely with the government on the development of a centre for foreign investors that is due to open later this year, which will provide full office facilities and logistical support for visiting business teams.

“Our task is to serve as an auxiliary to the government by making the life of investors in the republic easier. In future, from the moment they arrive at the airport, the CCI will be able to look after them and ensure they have everything they need for their business requirements during their stay in Bashkortostan,” says Pustovgarov.

Inspiring confidence

Taken together, all these measures form a comprehensive package that demonstrates the pro-business stance of Bashkortostan to potential investors, according to Khamitov. “Any company contemplating a major investment needs to have confidence in the credibility of the regional government, in its attitude to investors and in its relationship with the federal authorities,” he says. “Thanks to the hard work we have put in over the past few years and are continuing to put in, we are able to reassure investors that we are stable, open and ready to support them.”

That work is already paying off, with inward investment increasing at an annual rate of 70%. In addition to the Alstom investment, Austrian wood processing giant Kronospan is investing up to R6 billion in a plant outside Ufa and Palfinger, a manufacturer of hydraulic lifting, loading and handling equipment has also invested.

Palfinger - also based in Austria - acquired a base in Bashkortostan in 2011 via the takeover of local crane producer INMAN and is in the process of expanding its operations in the republic, with a new facility for the manufacture of manipulators and lifting equipment due to come on stream in the near future.
Other major international names that have already established ties with Bashkortostan include General Electric and Snecma, while Honeywell International Corporation signed a memorandum of understanding with the regional government in November 2012. Honeywell – a Fortune 100 company – has set up a working group to look at opportunities in the republic. The corporation is considering a partnership with Ufa firm Hydraulics to manufacture and repair auxiliary power units for aircraft, while other potential areas of cooperation including petrochemicals, mechanical engineering and the creation of a radioelectronic cluster.

Policy-makers also report recent expressions of interest in Bashkortostan from companies in countries as diverse as South Korea, Germany and China. The interest the republic is receiving from international investors makes the government’s current target of a rate of investment of 29% of gross regional product achievable.

Case study: Lasselsberger Ceramics

One of the biggest makers of ceramic tiles and ceramic raw materials in Europe, Lasselsberger Ceramics began production in Bashkortostan in 2009 and today turns out 6 million square metres of tiles a year from its factory outside Ufa.

For Lasselsberger, the choice of Bashkortostan was primarily driven by its ease of access to major markets and abundance of raw materials. “Ceramic tiles need to be distributed over a huge area so Ufa is an optimal solution, given its proximity to Moscow, Kazakhstan, Siberia and other growing CIS markets,” says Peter Molnar, head of Lasselsberger’s operation in Ufa.

“We also need ready access to raw materials such as quartz sand and feldspar, and we are able to source more than 90% of our total requirements in Bashkortostan.”

The company has two production lines at its Ufa plant and is in the process of installing a third, which is due to start operation by October. Further expansion is scheduled and by 2015 Lasselsberger plans to have six production lines in Ufa turning out 20 million square metres of tiles per year, with staff levels also expected to rise to 1,200.

Of the firm’s current 300 employees, only six are from outside Bashkortostan – a testament, says Molnar, to the skill level of the local workforce. “I have been very positively surprised at the availability of highly trained staff in the region, from mechanics and electronics specialists to accountants and sales people,” he says.

He adds that the continuing support of the regional government has been key in encouraging Lasselsberger to pursue its expansion. “It’s not always easy for a western company to invest in Russia but our interaction with the authorities here has been very positive,” he says. “I would definitely recommend Ufa as a venue for foreign investors looking for a base in Russia.”

Perfectly positioned

Impressive connectivity and access to major markets are a key part of Bashkortostan’s appeal for investors.

Located in the heart of the highly industrialized Urals region, the republic is almost exactly equidistant from China and western Europe, and lies astride the main road and rail links between the two. Both the Trans-Siberian and Southern Siberian railways cross Bashkortostan, while Ufa is handily situated on the M5 highway that forms a key part of the road network that runs through to Beijing.

Ufa is less than two hours by air from Moscow via the city’s international airport, which also serves destinations in the CIS, Europe, South-East Asia and the Middle East. The airport has capacity for 200 passengers an hour and will be able to process more than twice that number when the new international terminal opens in 2014.

The republic is also linked to the Baltic and Black Seas via its main rivers, including the Belaya and Ufa, which are part of the deepwater transportation system of European Russia.

In total, more than 30 million people live within 1,000km of Bashkortostan, making it an ideal destination for access to growing markets and abundant raw materials in both Russia and – with the Kazakh border just 500km away – Central Asia.
Bashkortostan’s ambition to take its place on the global economic stage received a huge fillip last year when the republic was selected as the venue for two major international events.

In 2015, leading politicians and businesspeople from the world’s biggest growth markets will visit Ufa as the city plays host to both the seventh summit of the BRICS grouping and the 15th summit of the Shanghai Cooperation Organization.

Policy-makers in Bashkortostan agree that the two events will offer a unique opportunity to showcase the republic’s infrastructure, accessibility and economic development. “This will provide an ideal platform for us to introduce Bashkortostan to a global audience,” says deputy prime minister Salavat Sagitov, whose remit includes the organization of the summits. “It will give us a chance to show the world that there are valuable opportunities in Russia outside the traditional centres of Moscow and St Petersburg.”

**Flying high**

Preparation for the summits will also complement Bashkortostan’s existing programme of infrastructure investment. Work is already under way on the construction of a new international terminal at Ufa’s airport – which serves a wide range of destinations in Europe, South-East Asia and the Middle East, as well as Russia and other Commonwealth of Independent States (CIS) countries – and is expected to be completed by the end of 2014.

The new terminal will boost the airport’s capacity to 500 passengers an hour from the current 200, an increase that is urgently needed to keep pace with the rapid recent growth of inbound visitor numbers. International passenger numbers were up by a third year on year in 2012 and the same growth is expected for 2013.

**Room for expansion**

Ufa’s hotel infrastructure will also see a significant expansion over the next two years, with capacity for an additional 2,000 guests due to be added by 2015. In total, 10 new hotels are in the pipeline, including at least three properties from major international hotel chains, a first for Bashkortostan.

InterContinental Hotels Group has announced plans to open a 203-room Holiday Inn, featuring five meeting rooms as well as a high-class restaurant and bar, on Ufa’s central city square next to the Gostiny Dvor retail and office complex in mid-2015.

“We are excited to open our first hotel in the Russian city of Ufa,” says an IHG spokesperson. “We are committed to growth in Russia and our expansion will be driven by growth in regional centres such as Ufa.”

Other new properties will include a three-star Hampton by Hilton that will be operated in conjunction with Russian hotel group Osnova Development and will offer 160 rooms over eight floors, as well as a fitness centre and 75 sq m of meeting and events space. The hotel will be located on Oktyabrya Street, in the emerging central business district of Ufa.

At least two four-star properties are also expected to open by 2015 – a Hilton-brand hotel is in the pipeline and authorities in Bashkortostan are in negotiations with Rezidor on the possibility of a Radisson property in Ufa. In total, around R20 billion of investment is planned for Ufa’s hotel sector over the next two years.

Key venues in Ufa, including the Congress Hall and the Neftyanik Culture Palace, will also receive upgrades in the run-up to the summits, including extensive modernization of acoustic systems.

Meanwhile, Bashkortostan’s ongoing investment in transport infrastructure – the government set up a fund last year to finance improvements to the region’s road network – is due to be supplemented by around R20 billion of funding from the federal government. Major bridge projects in Ufa are also in the works and are expected to be completed in time for the summits.

**Reliable partner**

For Sagitov, the choice of Ufa to host the BRICS and SCO summits is a testament to Bashkortostan’s existing infrastructure and its capacity to implement change. “The fact that the republic was chosen to host these summits is an acknowledgement of our standing as a reliable partner and a recognition of the fact that we are able to solve a task of any magnitude of difficulty,” says Sagitov.

He adds that the republic’s tradition of hospitality also makes an ideal venue for major events. “We have a strong culture and we are very conservative in a positive sense,” he says. “For us in Bashkortostan, a guest is like a saint – and these events will give us a chance to share our values with a wide international audience at the same time as showcasing our economic development.”
URALSIB
A leading privately-owned bank in Russia

We offer our clients an unparalleled comprehensive range of financial services.
We have one of the largest banking networks in the country linking our foreign partners and 27,400 corporate and 4,100,000 private Russian clients across all major regions of the Russian Federation.
We are well-recognized worldwide and have long-term positive track record in the international markets.
One of our main priorities is working with small and medium enterprises and thus promoting development of the Russian economy and supporting well-being of Russian people.

www.bankuralsib.ru