

Q&A: Staying Positive in Construction Market Meltdown

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With a recession gathering speed, construction companies are freezing new projects and waiting for a revival.

Times are tough on the Russian construction market.

With the economy expected to shrink by up to 5 percent this year and the cost of financing sky-high, the number of new construction projects has plummeted.

This is a problem not only for builders, but for all the industries surrounding them — including such major players as French multinational Saint-Gobain, a world leader in the design, production and distribution of building and high-performance materials.

Gonzague de Pirey, who has headed Saint-Gobain's operations in Russia, Ukraine and the CIS for the past three years, is first to admit that the situation is difficult. While not as deep as the last financial crisis of 2008-09, this slump could last up to two years, he told The Moscow

Times in an interview.

But crises pass, as all old Russia hands know, and de Pirey is convinced that the essential strengths of the Russian market will prove themselves in the coming years.



For MT

Gonzague de Pirey

Q: How do you feel as a foreign company in Russia, given the difficult political and economic situation?

A: There would be new difficulties if we were not producing in Russia. We see more and more customers asking: "Are you sure that this product is made in Russia?"

It's about the political will to buy locally made products. For public tenders this is sometimes explicitly written, but private companies in their tenders are also influenced by this political desire to produce more locally and buy more local products.

As for being a foreign brand, it is today more than ever a strong advantage. Our brands carry this idea of a quality product, an innovative product, et cetera. The market believes this and trusts this, and its value has not decreased at all.

Q: Are all of your products for the Russian market made in Russia?

A: The immense majority, yes. We still have a few high-performing products that are made abroad.

In the construction sector overall we sell locally what we produce locally. You take bricks, cement, even steel, gypsum, plasterboard, insulation, mortars, glues — they are quite cheap and you cannot transport them, the cost of transport would kill your margin. Even before the crisis and the devaluation, most construction materials in Russia were made locally.

Q: How has the economic crisis affected the construction market and how does it compare to the 2008-09 crisis?

A: There are almost no new projects. Everyone is just waiting. There's a very, very big drop in this segment.

If I compare to the previous crisis, the drop for new projects — which is only part of the market — could be up to 50-70 percent. If I talk about the entire market, the current numbers that we hear from market players are about 20-25 percent.

The previous crisis was even tougher than the one we are entering today, but it was quite short. After two or three quarters, the rebound was quite strong. I expect this crisis to be less deep, but, unfortunately, it may last longer. I am expecting two years.

Q: What is your mid and long-term forecast?

A: In the next 18 months, I'm afraid the situation will be quite difficult. But then in the long term, I still believe that we have huge potential.

The need for square meters is there — for housing, for commercial [real estate], for administration, for hospitals, schools. There is definitely a huge need that needs to be filled. And we believe that the share of high-quality building will grow, so the potential for us is very big.

Russia is still in a period of very rapid development. Today, the number of square meters per inhabitant already built is 22-24 [square meters] in Russia, while in Western Europe, it's more like 40-44 [square meters].

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