Problems and Risks of Parallel Imports of Eco-Friendly Materials in Construction

Problemas y riesgos de las importaciones paralelas de materiales ecológicos en la construcción

Fecha de recepción: mayo 03 de 2024
Fecha de aceptación: mayo 24 de 2024
DOI: https://doi.org/10.5377/reice.v12i23.18290

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Abstract

The construction industry is experiencing a change in the supply of raw materials, goods, etc. This study is stipulated by problems in providing the construction industry with foreign materials and associated risks. The article aims to determine the differences between direct and parallel imports, separate parallel imports from counterfeit activities, and propose strategies to reduce the associated risks. Within the framework of the dialectical approach, the authors of the article use various scientific methods, including analysis of scientific literature, economic, structural, statistical, mathematical, and comparative analysis. The authors conclude that it is possible to reduce the construction industry’s dependence on imports by creating domestic enterprises producing raw materials and goods currently in short supply due to sanctions. In this regard, supply chains will be reformed and will provide better positions in the global construction market in cooperation with Chinese premium manufacturers. In addition, directions for parallel imports are established, although this approach has certain difficulties and risks. Import substitution through domestic raw materials, products, etc. will have a positive effect on the economic and social environment in Russia and lead to a decrease in the shortage of foreign goods or products.

Keywords: Import, Problem, Risk, Construction, Factor, Pricing Policy, Economics.

Resumen

La industria de la construcción está experimentando un cambio en el suministro de materias primas, bienes, etc. Este estudio está estipulado por los problemas para proporcionar a la industria de la construcción materiales extranjeros y los riesgos asociados. El artículo tiene como objetivo determinar las diferencias entre importaciones directas y paralelas, separar las importaciones paralelas de las actividades falsificadas y proponer estrategias para reducir los riesgos asociados. En el marco del enfoque dialéctico, los autores del artículo utilizan diversos métodos científicos, incluido el análisis de la literatura científica, el análisis económico, estructural, estadístico, matemático y comparativo. Los autores concluyen que es posible reducir la dependencia de la industria de la construcción de las importaciones mediante la creación de empresas nacionales que produzcan materias primas y bienes que actualmente escasean debido a las sanciones. En este sentido, se reformarán las cadenas de suministro y proporcionarán mejores posiciones en el mercado mundial de la construcción en cooperación con los fabricantes premium chinos. Además, se establecen rumbos para las importaciones paralelas, aunque este enfoque presenta ciertas dificultades y riesgos. La sustitución de importaciones mediante materias primas, productos, etc. nacionales tendrá un efecto positivo en el entorno económico y social de Rusia y conducirá a una disminución de la escasez de bienes o productos extranjeros.

Palabras clave: Importación, Problema, Riesgo, Construcción, Factor, Política de Precios, Economía.
**Introduction**

The research topic and its problems reflect the main tasks of parallel imports both in the national economy and in the construction industry. The relevance of the discussion on parallel import is due to its legalization in Russia in 2022 (Decree of the Government of the Russian Federation No. 506, 2022), which entailed changes in the legislative framework and was reflected in the following legislative acts:

– Letter of the Federal Customs Service of Russia of March 31, 2022 No. 01-11/17479 (The Federal Customs Service of Russia, 2022);


The need for parallel imports has recently become quite relevant and important for the Russian Federation, which is reflected in the scientific works by many specialists. Thus, A.M. Petrov et al. call for analytical procedures of foreign economic activity and the formation of statistical data (Nikiforova et al., 2023; Nikiforova & Polyakov, 2022; Petrov et al., 2022a, 2022b; Polyakov & Nikiforova, 2023). V.S. Kruglov, A.Yu. Markelov, and M.N. Tolmachev study aspects of Russia’s international trade in conditions of strategic geo-economic uncertainty (Kruglov et al., 2023; Narbut et al., 2022; Tolmachev et al., 2021). S.V. Bank et al. analyze risks and ecological issues (Bank et al., 2023; Efimova et al., 2019; Muzalev et al., 2022, 2023; Petrov et al., 2019).

The scientific novelty of the results obtained lies in the clarification and justification of complex parallel imports of eco-friendly materials for the construction industry.
Materials and methods

This research uses general methods of analysis, logical thinking, abstraction, and the monographic method.

Within the framework of the dialectical approach, the study utilizes various methods of analysis, including critical analysis of scientific literature. Preference is given to scientific works of modern scholars that reflect the real situation with parallel imports and reveal the problems and risks that have arisen.

Results and discussion

Currently, Russia is experiencing a decline in foreign trade turnover, which is due to various sanctions, and the economic and political situation. The general external trade turnover and the dynamics of imports and exports in Russia are presented in Figures 1 and 2.

![Figure 1. Foreign trade of Russia in 1994-2023, the volume of trade turnover (in billions of US dollars, the Federal Customs Service data)](image)

Source: compiled by the authors based on (iFinance, 2019)
According to the data presented by global-finances.ru and Figure 1, the volatility of external trade turnover is predetermined (iFinance, 2019). From 1994 to 2022 (the data for 2023 cover 11 months), the maximum value of foreign trade turnover was achieved in 2022.

**Figure 2.** Import and export volumes from 1994 to 2023 (in billions of US dollars, the Federal Customs Service data)

Source: compiled by the authors based on (iFinance, 2019)

Data on the total trade turnover and import and export volumes in 2023 cover only 11 months. The results of Russia’s foreign trade surplus showed a decrease in trade turnover by 2.4 times, which in value terms corresponds to a decrease of 15.8%. There is an increase in imports by 13.6% and a decrease in exports by 28.3%.

Due to economic sanctions, the volume of export trade with EU countries decreased and amounted to 2.3%. The volumes of goods exported from the EU in 2022 (billion US dollars) are presented in Figure 3.
As can be seen from Figure 3, Russia is next-to-last among exporters, which causes an imbalance in the commodity structure of Russia and the EU.

However, there is a decrease in exports to European countries, whose volume is 10% and equal to the volume of imports from European countries. Among the product groups exported, the largest share belongs to mineral products, agricultural raw materials, and food products.

Major trading partners for imports of goods to the EU in 2022 are presented in Figure 4.
According to the data presented above, Russia is among the leaders in imports. The share of imports is 6.46%, which corresponds to the third position among importers. China with a share of 21% and the USA with a share of 12.3% are ahead of Russia in terms of imports. The main objects of Russia’s import trade turnover are vehicles and equipment and machinery for various fields of activity, including the construction industry. Budget revenues from exports and imports have also changed. VAT, duties, and excise taxes on import transactions are the largest revenues in the country’s budget.

According to S. Donets, imports will have to respond to the weakening of the ruble reflected in purchase prices. “Imports are more responsive to any internal incentives, from interest rates to exchange rate adjustments” (Degotkova, 2023).

The procedure for foreign economic activity regarding the import of products is shown in Figure 5.
There are two types of imports: imports focused on industrial and consumer goods and imports focused on intermediate products (raw materials) and services. Import classification groups and their types are shown in Figure 6.
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**Figure 6. Import classification groups**

Source: compiled by the authors

This classification of imports helps determine import dependence and develop effective business solutions in the face of the dichotomous nature of foreign economic activity.

In recent years, certain economic conditions and sanctions against Russia have contributed to the consolidation of parallel imports in the market.

“Parallel imports are one of the most mysterious phenomena of international trade. On the one hand, they strictly follow the laws of the market. On the other hand, the laws of the market are not the only ones that apply to this type of activity” (Heath, 1999).

“Parallel import is the importation of goods into a country without the consent of the manufacturer or copyright holder” (Maslenko, 2023).

In market conditions, there are direct and parallel imports. “Direct import is the import of goods into the country of its consumption (including for industrial consumption) directly from the country of origin of the goods” (Kurakov et al., 2004, p. 317).

“Parallel import is the importation of goods into a country without the consent of the trademark owner, i.e., ‘parallel’ to the official import of such goods through dealers
authorized by the trademark owner” (Vikipediya, n.d.). The scheme of direct and parallel imports is presented in Figure 7.

![Diagram of Direct and Parallel Import Schemes](image)

**Figure 7.** Direct and parallel import scheme

Source: compiled by the authors based on (VED. Import produktsii, n.d.)

Figures 7 and 8 reflect the emergence of additional parallel import links in the supply of imported goods.
The directions of product distribution during direct and parallel imports (according to Figures 7 and 8) reveal several problems associated with the implementation of parallel imports. However, parallel imports had existed in Russia for quite a long time but were banned in 2002. This step ensured the attraction of investment into the country. The events of recent years have revealed three main reasons for its legalization:

– Quality discrimination;
– Assortment discrimination;
– Price discrimination.

Experts believe that assortment discrimination has become the main prerequisite for Russia adopting parallel imports.

The main pros and cons of parallel imports are presented in Figure 9.
Parallel imported goods differ from direct imported goods in only one aspect: they do not have the official permission of the manufacturer. “There are no sanctions for parallel imports. Currently, the USA, Great Britain, Canada, Brazil, and Turkey use this approach. Since March 30, 2022, Russia has again joined this list” (Zeng & Zhang, 2020, p. 510).

Parallel import can be represented by several subtypes (Figure 10).

<table>
<thead>
<tr>
<th>Positive aspects</th>
<th>Negative aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original products provided with quality certificates and licenses</td>
<td>Increase in the price of a product due to additional links in the supply chain</td>
</tr>
<tr>
<td>The emergence of new goods not available in Russia, reducing the deficit</td>
<td>The quality of the seller’s repairs may be lower than that of the manufacturer’s repairs</td>
</tr>
<tr>
<td>Warranty service for equipment by the seller (reduced repair time)</td>
<td>Copyright holders are losing control over trademarks, patents, and intellectual rights</td>
</tr>
<tr>
<td>Reducing the time required for customs control</td>
<td>Decrease in the investment attractiveness of the Russian market</td>
</tr>
</tbody>
</table>

**Figure 9.** Positive and negative aspects of parallel imports

Source: compiled by the authors
In our opinion, parallel imports in the construction industry are not a decisive factor in reducing the shortage of goods, as they are caused by several risks. The main risks and their causes are grouped in Table 1.

**Table 1.** The main risks and perquisites for parallel imports in the construction industry

<table>
<thead>
<tr>
<th>Actions</th>
<th>Risks</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% prepayment to the supplier for the goods</td>
<td>Failure to deliver goods on time</td>
<td>It is impossible to return the advance payment</td>
</tr>
<tr>
<td>Disruption of the supply chain for unknown reasons</td>
<td>Failure to deliver goods on time</td>
<td>It is impossible to return the advance payment</td>
</tr>
<tr>
<td>Changing arrangements</td>
<td>Failure to deliver goods on time</td>
<td>Failure to fulfill contractual obligations</td>
</tr>
</tbody>
</table>

Many questions arise about the supply and maintenance of equipment in the construction industry. If the corresponding equipment is supplied through parallel import, it is unclear by whom and how technical support and its updating will be provided.
In addition, there are many gaps in the regulatory framework. Article 1487 of the Civil Code of the Russian Federation clearly states that “the exclusive right to a trademark shall not be deemed infringed if the trademark is used by other persons in respect of goods that have been introduced into civil-law transactions in the territory of the Russian Federation directly by the right holder or with the consent thereof” (Grazhdanskii kodeks Rossiiskoi Federatsii, 2006). Thus, the Federal Customs Service received instructions from the Government of the Russian Federation regarding the temporary suspension of measures to protect intellectual property, except for certain groups of goods.

The EU’s fifth package of sanctions introduced a ban on the export of printing ink to Russia. As a countermeasure, the Ministry of Industry and Trade of the Russian Federation expanded the list of FEACN codes with a wide range of paints and varnishes, including pigments and building materials where coloring pigments are used. These actions have led to uncertainty regarding original or counterfeit goods and the legality of this practice for importers.

One of the important issues regarding parallel imports is that Russia considers them counterfeit. According to Clause 4 of Article 1252 of the Civil Code of the Russian Federation, “the circulation of goods that leads to a violation of the exclusive right of copyright holders is considered counterfeit. Such goods are subject to withdrawal from circulation and alienation by court decision” (Grazhdanskii kodeks Rossiiskoi Federatsii, 2006). In 2018, the Constitutional Court ruled that the crossing of a border by a product without the consent of its copyright holder does not make the original product counterfeit. However, Russia has not fully legalized parallel imports, which complicates the work of not only the construction sector but also other areas of the national economy.

A major problem of the construction industry is the legal purchase of parallel imported goods. To use parallel imports, construction companies still need to buy such products where the copyright holder/seller is not bound by licensing restrictions on selling the products to certain countries, and the products must be eco-friendly. In this regard, an increase in operating costs entails a decline in margins, which will
negatively affect the level of competition and price maneuverability for dealers and end consumers and limit the planning horizon for current and future activities.

Currently, Russia has reoriented itself to the East in terms of foreign trade, with the volume of exports and imports amounting to 70%. According to RBK data from November 14, 2023, “the volume of exports decreased by 29%, from 448.9 billion US dollars to 316.9 billion US dollars, and imports increased by 18%, from 180.3 billion US dollars to 213.3 billion US dollars. Trade surplus in goods amounted to 103.6 billion US dollars, which is almost 2.6 times less than in January-September 2022 (268.7 billion US dollars)” (Degotkova, 2023).

China, Turkey, and India increased the volume of trade with Russia in 2022, while China became the leader in Russian exports and imports and successfully replaced the EU. The EU’s share of Russian imports declined by 14.2% in 2023, providing more opportunities for China, Turkey and India. Russia’s foreign trade balance remained positive in 2023 (Figure 11).

![Figure 11. Foreign trade balance of Russia in 2023 (billion US dollars)](image)
Source: compiled by the authors
Currently, there are rapid changes in the structure of Russia’s foreign trade activities which began in the previous decade. Based on the revision of relations with foreign trade partners from the EU and the US (the trigger point was the package of sanctions), Russia accelerated the processes of import substitution and reoriented itself to China, Turkey, India, and Brazil in terms of foreign trade activities.

The biggest share in the structure of necessary construction goods is occupied by equipment and machinery, which influenced the Russian construction market and determined an import-oriented model. This is certainly true because the market consists of 88% imported goods, which entails certain risks.

The expectation of Russian property developers to stabilize the pricing policy and partnership strategy has not been justified. It is necessary to reduce the dependence of the construction industry on imports from the EU and the US. In this regard, the development of domestic enterprises for the production of materials, raw materials, and eco-friendly goods that are most scarce in the construction industry will neutralize production and financial risks.

Risks can be mitigated through parallel imports and reorientation of the construction business to eastern suppliers. Despite the complexity of building supply chains, Chinese premium manufacturers can ensure competitive positions in the global construction market.

The article studied the structure of Russia’s foreign trade turnover; compared direct and parallel imports; revealed their features and classification groups; emphasized the risks accompanying parallel imports and foreign economic activity; considered Russian exports and imports and its reorientation towards eastern countries.

The theoretical significance of the study lies in the systematization of imports and exports and the emergence of parallel imports in an unstable economy.

The practical value of the study is due to the possibility of increasing the efficiency of the construction industry in terms of parallel imports and accelerating reorientation towards business partners in China, India, and Turkey.
Conclusion

Summarizing the study results, it should be noted that there are problems and risks of parallel imports in the construction industry and their leveling requests a comprehensive approach, starting from the regulatory framework and ending with information and methodological support for these processes.

The research topic is relevant and important in modern conditions. The volume of the construction macro-sector amounted to 12.9 trillion rubles in 2022, which corresponds to 8.7% of GDP.

The construction sector is socially oriented because it creates residential and non-residential facilities, creates jobs, and provides the population with financial and social benefits. While studying the construction sector, we identified the main problems associated with the high tax burden and expensive building materials and equipment, as well as new orders and a shortage of eco-friendly building materials.

The construction industry is a major customer of mechanical engineering goods produced by the chemical industry and the transport industry, which allows to develop import substitution in Russia and overcome parallel imports of products from European manufacturers. The most scarce and necessary construction equipment, as well as eco-friendly building materials, can be bought from Eastern suppliers, namely from China, Turkey, and India.

The results of the study are as follows:

– Statistical and analytical materials regarding exports and imports were critically reviewed;
– Parallel imports and the associated risks were analyzed;
– The main problems of parallel imports in the construction industry were identified;
– The directions of partnership relations with Eastern countries were determined.
Indeed, import substitution through domestic raw materials, products, etc. will have a positive effect on the economic and social environment in Russia and lead to a decrease in the shortage of foreign goods or products.

The facts and conclusions obtained in the course of this study can be useful for improving the efficiency of the construction industry in terms of parallel imports.

Acknowledgments

The article is based on the results of research conducted at the expense of budget funds under the state assignment of the Financial University under the Government of the Russian Federation.

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