



Conference discussions revealed unrest among transport and logistics providers in Russia.

Oil price fall aggravates industry-state tensions



Annie Roberts,
our roving reporter in
MOSCOW



Russia has been on the minds of many over the past year – but does rising concern threaten the country’s heavy lift and project forwarding business? The issues were thrashed out at the annual Heavy Russia conference in November 2014.

Russia has received widespread condemnation over its annexation of Crimea in March and the ensuing conflict in Ukraine, as well as suffering a devastating drop in its currency with the rouble losing more than half of its value against the dollar in 2014.

Both international sanctions and the plunge in oil prices have had a detrimental effect on the rouble, as well as on the country’s opportunities for trade. Russia has always been a huge player in the heavy lift and project forwarding industry, due to a plethora of oil and gas, and power projects.

However, sanctions imposed on Gazprom, Gazprom Neft, Lukoil, Surgutneftegas and Rosneft have banned Western firms from supporting the Russian companies’ activities in exploration or production from deepwater, Arctic offshore or shale projects.

What effect this, coupled with the falling oil price, will have on some of those

projects, and the transport and logistics contracts that are driven by them, is not yet clear. But for Russia, which relies so heavily on its oil and gas production (with oil and gas revenues making up over 50 percent of the federal budget), the news is not good.

Despite the uncomfortable situation in which Russia finds itself, the condition of the project logistics industry within the country is not so clear-cut. Projects are still going ahead and the number of attendees at

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2014’s annual Heavy Russia event in Moscow suggested that it is not all doom and gloom among heavy transport providers.

One of the event organisers, Sergey Evmenenko, admitted that the numbers were down due to the country’s economic and political situation, but the conference was busy, lively and engaging nevertheless.

What was clear from the conference was that there is a lot of unrest among transport and logistics providers in Russia, with disagreements between those companies and the federal government being raised from the beginning.

Andrey Chertkov, deputy director of FKU Rosdormonitoring – the federal road agency for monitoring safe operation and maintenance of roads and highways, and part of the Ministry of Transport of the Russian Federation – opened the event with a speech that suggested 30 percent of vehicles transporting heavy loads across the region are violating regulations and damaging the country’s roads.

“The government is appealing to the transport community to understand that the network of roads should not be exploited so violently,” exclaimed Chertkov, provoking a rumble of dissent around the room.

He noted a federal government pledge to develop both the transport and permitting system in Russia, as well as to introduce more roadside weight control sites in order to help monitor those carriers that are violating regulations.

Unresponsive government

Amid a grumbling audience, Natalya Timofeeva, chairperson of the Oversize, Heavy and Hazardous Cargo Hauliers’ Union, fervently countered Chertkov’s comments, declaring that the authorities do not want a dialogue with transport providers.

Timofeeva told delegates how the union had written to President Putin on numerous occasions about the sector’s issues, but has never received a reply.

“As for the state of the roads,” she said, “the government blames everything on the cargo transporters, but in reality the roads remain in the same state as they were in the 1970s.”

Sergey Tropin, chairman of the supervisory board at Spetsyazhvtotrans, which was the first specialised enterprise in the Russian Federation to be established solely for the shipment of oversize and heavy cargoes over 30 years ago, suggested that a self-regulating system would be the most comprehensive way to deal with the problems surrounding the heavy and out-of-gauge transport industry. “The state controls health and life,” he

explained, “not the quality of bridges and transport operations.”

A panel discussion then ensued on how to eliminate bureaucratic and administrative obstacles standing in the way of the oversized cargo carriers.

Chertkov argued on behalf of the federal government that it would be more simple to establish one state-owned transportation company and dissolve all private companies, while Timofeeva declared that the industry’s bureaucratic barriers must be broken down.

“Corruption is flourishing,” she added. “All complaints given in have not been taken seriously – they are probably in the bin.” Timofeeva went on to discuss varying rules and regulations in different regions, as well as the unfavourable conditions in some parts of Russia. In Siberia, she said, there are no hotels on the road, no rest stops, no toilets and everything freezes. “How are we expected to operate in those conditions? We need a clear system allowing us to function and we need it urgently.”

Industry grievances

The confrontational conference was dominated by some of the pertinent issues affecting transport providers in Russia, namely the government’s refusal to cooperate with the industry, the prevalence of corruption within the sector, and the deteriorating infrastructure.

In this vein, the conference revealed a relatively pessimistic outlook for the country’s heavy lift and project forwarding sector. However, the event also highlighted the huge potential for the region’s transport industry if some of the issues are addressed.

Opportunities in Siberia are at the forefront of this potential, with extensive discussion of the upcoming Yamal LNG project and the logistics possibilities that it will provide many companies in Russia.

“The Russian north is being discussed more and more,” said Alexander Goloviznin, director, logistics and analytics at Morstroytekhologiiya. “Money is going there. Our north is very rich... and we know it... there are huge deposits of oil, gas and condensate in the north.”

Karen Stepanyan, director of freight forwarder Sovfracht-Yamal, also hailed the opportunity that the Yamal LNG project, alongside other northern energy projects, will provide Russia’s transport industry. He also stressed that providers are “actively discussing” the Northern Sea Route, and see it as having good potential for growth.

Despite some doubts, there was a general consensus that international sanctions will



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have little effect on the viability of such projects. Philip Adkins, chief executive of ZPMC-Red Box Energy Services, who delivered a speech about the company’s new module carriers – currently under construction in China and destined for use in the Yamal LNG project later in 2015 – noted: “The world needs energy and the energy resources in Russia are profound.”

Irina Koenig, director of the Hamburg branch of logistics company Chandler Shipping, agreed but argued that other smaller projects would suffer due to Russia’s political and economic situation.

Alexander Shelkov, general director of oversized cargo specialist Instar Logistics, remained cynical about the economic outlook for the country and the industry in 2015. “There is no money and there will be no money in our country... we must either reduce costs or act differently.”



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Tropin was also pessimistic about business in 2015, due to oil companies and engineering, procurement and construction (EPC) contractors not ordering a lot of equipment. “That is true for both Lukoil and Rosneft,” he claimed, putting the decrease in orders down to the economic state of affairs, rather than sanctions.

Regardless of the way that many of the Russian companies present described the futility of sanctions imposed by the EU and USA, it would perhaps be foolish to assume that such international obstacles will have no impact on Russia’s trade and transport industry.

Indeed, Aleksander Bulygin, lead specialist at shipping and logistics group TMBC – who gave a speech on the advantages and disadvantages of using the Black Sea over the Baltic Sea for imports into Russia – confirmed that some “foreign carriers are refusing to do shipments due to the sanctions”.

It cannot be denied that confidence in Russia and its businesses has fallen after a year of political and financial struggles. The fall in oil prices has meant that some projects have been suspended, delayed or cancelled, while the conflict in Ukraine has left some hauliers having to find alternative, and generally more expensive, routes into Europe with precious loads.

What further developments we will see in Russia’s situation are unknown, as are how they will affect project forwarding businesses, but the uncertainty and discord within Russia’s domestic market does not bode well for the country’s international prospects.

● HLPFI will report on Russia’s project logistics market in more depth in its March/April 2015 issue. If you have any comments to contribute to the feature, please contact Annie Roberts at: ar@heavyliftpfi.com