Major Russian industries break down under weight of sanctions

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Key sectors of Russian industry are breaking down under the weight of import and export bans, deficits of spare parts and materials, the closure of foreign markets and the freezing of financial transactions. Reports are emerging of problems in everything from trucking to the production of milk cartons, as companies struggle to sustain operations.

On Tuesday, Russian lead producers announced they are in danger of shuttering factories due to the absence of overseas buyers and a decline in domestic demand fueled in large part by a sharp contraction in the auto industry. Even with some enterprises having already cut production by 30 percent over the last several months, warehouses are full with unsold lead.

European consumers previously accounted for nearly 50 percent of all Russian lead sales, and they have effectively been absent from the market since March due to logistical and financial problems brought on by Western sanction. As of July 10, EU purchases of Russian lead will be entirely prohibited. Lead companies also say they are encountering major obstacles getting the government licenses necessary to divert production to Asian countries.

At an industry-wide conference held on June 7, Russian freight companies declared they are at risk of bankruptcy due to a steep decline in prices, high costs for replacement parts, and an inability to purchase new vehicles from foreign suppliers. In April, the EU barred the country’s trucks from entering its soil.

Domestic demand is down, too. Between March and June 1, corporations saw freight prices drop by 13.2 percent on average for the top 100 destinations, with some major routes experiencing two to three times that decline. The fee charged for transporting goods between Moscow and Saint Petersburg, Russia’s two largest cities, fell by 34.4 percent during those three months. Whereas previously, 1 million Russian trucks made 300,000 daily shipments, now 1.1 million trucks are making just 180,000. Air cargo is also down.

The government is aware of the problem, with the minister of transport acknowledging in May that sanctions “practically broke all the logistics in the country.” It has made grants and low-cost loans available, but companies say that is not enough. They need help with the cost of fuel, and they are overburdened by taxes. In addition, while the ministry of industry and trade has approved “parallel imports”—branded goods that are brought into the country without the permission of the trademark owner—of Scania and Volvo products, they have not done so for Mercedes, MAN, Iveco, DAF and Isuzu. As a result, the rubber necessary for truck repairs is, for instance, in short supply, reports news outlet RBK.

Russia’s ports are also in crisis. In March, cargo turnover in Saint Petersburg, one of the country’s largest harbors, fell by 41 percent in absolute volume. The government has responded by cutting rental rates that shippers have to pay for the use of port facilities, but experts say that without an increase in demand the problem cannot be overcome.

There are ongoing discussions over the creation of new maritime links between domestic and international ports, including some in Iran. But putting such plans into action requires significant investments, as well as time, because in many cases the infrastructure to send or receive the kinds of cargo that would be borne by Russian ships does not currently exist. A looming EU and UK ban on insuring Russian maritime transport will further complicate the situation.

The auto industry also continues to suffer from the pullout of foreign car producers and a major shortfall of materials, particularly electronic components. Rosstat, Russia’s central statistical agency, announced Wednesday that auto production fell by nearly half between January and April. This is the steepest drop witnessed in any sector. In April of this year, Russian automakers produced 85.4 percent fewer cars than they did at the same time in 2021. “At the moment, only two enterprises produce cars more or less stably—the Ulyanovsk UAZ and the Tula plant Haval,” reported *Izvestiia* on June 6.

In an interview with Ridus.ru, industry expert Sergei Aslanyan explained the depth of the crisis. “We don’t have electronics factories, we don’t have anything to make an engine out of. We have ‘Niva,’ which is 45 years old, 20 percent consists of imports,” he said referring to one model produced by Russian manufacturer Lada. But, he added, “It has pistons and piston rings from the American corporation Federal Mogul. And now we will even have nothing to assemble the Niva from. What are we going to make air bag systems from? Who will present us with an airbag? Nobody. We don’t even have bearings.”

The prospect that a nationwide import substitution program, which the Kremlin is pushing, will fill the gaps is a pipedream, argue experts. "Even the Soviet archaic Moskvich [car model] cannot be revived today. Where can I get it? It disappeared a long time ago. I'm afraid that even the documentation can only be found in the museum. It is impossible to breathe life into the dead," Yang Heitzeer, vice president of the National Automobile Union, told Ridus.ru.

The data, computing, and telecommunications industries, which sustain all sectors of the economy, are now without the semiconductors, microchips and servers they need to operate and expand. Home-grown companies have not been able to match the memory, processing and bandwith capacities of foreign-made producers. These are in high demand because overseas corporations are no longer providing cloud services to Russian firms.

In Tatarstan, with a population of more than 3.8 million, the Ministry of Digital Development had to scrap plans to extend 4G/LTE to 61 cities and instead was only able to provide the service to 30 new places. It simply lacked the materials necessary. A similar problem occurred in Saratov Oblast, home to 2.4 million people.

In late May, the Russian Steel Association told the government that it is confronting difficulties due to a steep fall in domestic demand and the strength of the ruble. In addition, with the EU having banned imports, producers have been forced to "sell goods at a discount, and in some cases even below cost" to China and other Asian countries, Russian Steel's head Alexei Sentyurin explained.

Its members will suffer major losses and have to cut production, the organization said, unless the government reduces its tax burden and works to devalue the ruble. "Ferrous metallurgy enterprises face serious risks of staff reductions," adds news outlet RBK based on its discussion with Sentyurin.

Russian agriculture is facing problems too because of its heavy reliance on imported seeds, which in some cases account for the majority or even the entirety of the product it uses—for instance, sunflowers (70-77 percent) and sugar beets (100 percent). While experts say an immediate crisis has been forestalled because the industry built up seed reserves, what will happen next year is unclear.

Yevgenii Ivanov of the Institute for Agricultural Market Studies explained to Zol.ru, "As a rule, all companies in the world that deal with sugar beet seeds grow them in northern Italy and southern France. In Russia, only some areas near Sochi and in the Crimea are suitable for these purposes." Crimea, however, is at the center of the war in Ukraine, and Kiev began cutting off water supplies to the region, which lacks adequate resources of its own, even prior to the Russian invasion. But, as Ivanov noted, "it is impossible to grow sugar beet there without irrigation."

The forestry industry is also running into difficulties. The head of the Khanty-Mansi autonomous region has been receiving large numbers of complaints from timber companies about the fact that due to export bans they have nowhere to sell their goods. Former major markets, such as Uzbekistan, are now closed.

There are concerns over the supply of bacteria for the fermentation of goods like yogurt and kefir, because Russian milk-product producers import 80 percent of what they need. For some time, there was a deficit of milk in stores in parts of the country because the Finnish carton maker that Russian producers relied on pulled out. The elevator industry is also having manufacturing problems.

Even the Russian oil and gas industry, which is posting record profits despite EU and US import bans due to surging energy prices and increased demand from China, India and elsewhere, is limited by the fact that it has lost access to imported technology, software, and human capital that it needs to develop new wells and gas fields in previously untapped places, like, for instance, the Barents Sea. Without a solution to this, as well as the construction of new pipelines to Asian markets, it will struggle to sustain itself and grow.

The Russian government is trying to cover up the depth of the crisis, claiming that unemployment, allegedly at just 4 percent, is the lowest ever, that its programs will reduce poverty in 2022 and its economic policies secure the real incomes of the population. President Putin declared on Tuesday that inflation is being brought under control.

The Kremlin is deeply concerned that popular anger over the collapse of the economy will not just be directed against the West for its punishing sanctions, but at the state for its disastrous invasion of Ukraine and the miserable consequences of 30 years of capitalist restoration. But the manipulation of jobless numbers, raises for government employees that amount to a couple hundred dollars a year, and false claims about the prices of essentials goods and services cannot change the reality facing the Russian working class.

For its part, the US and its NATO allies are celebrating the destruction of Russia. Media accounts in the Western press generally note with barely suppressed delight the deepening crisis.