Russian shipbuilding – is a rapid turnaround possible?

By Arild Moe and Lars Rowe

According to Russian authorities, the country's shipbuilding industry is in a deep crisis: Labour intensity at Russian yards is 3 to 5 times higher than in other countries, and Russian yards take from 2 to 2.5 times longer to build similar ships. In 2007 the Russian Ministry for Industry and Energy (Minpromenergo) launched a strategy for the further development of the shipbuilding industry. In the strategy document two areas stand out: Russia's military capabilities, and the development of petroleum resources on the Arctic continental shelf.

The strategy has two main elements: development of a state investment programme for civilian shipbuilding and reorganization of the industry. All in all, the programme represents a very ambitious policy of modernizing Russia's shipbuilding industry. The goal is that the industry by 2016 is to be competitive and able to cover much of Russia's shipbuilding needs, and even conquer a 'significant share' of the world market.

The total cost of the federal target programme 'Development of civilian marine engineering for the period 2009–2016' is estimated to be 136.4 bill roubles (approx USD 5.5 bill.). Even if the sums are big, when spread out over the years and between the various sub-programmes, their contribution will not necessarily be strongly felt. But the main concern is with the approach. It is an attempt to force through modernization and innovation by decree, which is reminiscent of the centrally planned economy. It is a top–down approach, where little is said about incentives for innovation from below. In defence of the programme, one can argue that, given the problem description in official documents, the situation in the sector is so serious that only a concentrated infusion of capital and concrete tasks from above can bring it back on its feet. But if this is true, the goals sound overly ambitious.

The other main element of the shipbuilding strategy is a comprehensive reform of state management of the naval industry. This reform entails establishing a state holding company, the Unified Shipbuilding Corporation (*Obedinennaya sudostroitelnaya korporatsiya – OSK*). This will be the umbrella organization over three regional state-owned holding companies and one non-regional one, with special areas of competence within naval production. The aim of the reform is to establish an integrated structure that gives the state full control over key decisions, but it is also clear that an important goal is to secure cooperation between yards.

It is still too early to tell exactly how the reorganization will be carried out. But the reform is very much in line with the strong centralization trend seen in Russia in recent years and a belief that central administrative agencies will be the most likely providers of a new and efficient structure in the shipbuilding complex through active intervention. Moreover, the shipbuilding industry in Russia is clearly regarded as a sector of national significance, both militarily and within the civilian sector, justifying strong state involvement. This point is further augmented by the large military presence in Russian shipbuilding: military orders currently make up 77 per cent of the order books at Russian yards. Very few yards have an exclusively civilian profile.

It must be noted though, that not all Russian yards are integrated in OSK. Three of the most important yards – Vyborg, Severnaya verf and Baltiyskij zavod in St. Petersburg – are still privately held. It is speculated whether the owners of these enterprises will be asked to sell their assets wholly or partly to the state. The apparently most successful yards are in private hands and the government may want to include them in the state corporation to help develop the whole sector.

The Ministry's strategy makes little reference to the need for international collaborative programmes, which could allow for Russian insight into the technological capacities of other countries. The role of foreign companies in the development of Russian offshore industry is mentioned only once in the strategy, and then without much specification. The strategy as a whole is strongly geared towards promoting a Russian naval industry able to meet the demands of national customers, and to a certain degree be able to compete effectively on the world market, on its own. In light of the backwardness of Russian naval industry today, this palpable lack of reference to international collaboration needed for future development points up what one may term a strong rhetorical discourse of national self-preservation in Russia today. Foreign (Western) interests are perceived mainly as ideological and economic competition – not as potential partners. But even if the potential and role of foreign interests is not highlighted in policy documents, and even if the use of Russian yards remains a strong overall concern, there is still considerable scope for foreign involvement in various ways, as experience has shown. Of the offshore platform under construction for Gazprom at Vyborg, only the hull is built in Russia. Everything above deck comes from various foreign suppliers. The same is the case with the ill-fated production platform for the Prirazlomnoye field under construction in Severodvinsk.

The mammoth industrial complex of the Russian naval industry is not easily turned around, and will still be held back by systemic problems in the foreseeable future. This is a reality that has been acknowledged at the central level in Russia. In May 2008, Prime Minister Vladimir Putin was clear in his statement during a visit to the Admiraliteyskie yard in St. Petersburg: "…foreign ships are built faster, are of a higher quality, and importantly – are still cheaper."

In policy statements coming from the new Russian president Dmitriy Medvedev it is possible to discern a critique of the strong tendency of central control and transfer of industrial assets to state companies, so dominant in Putin's second term. '.. any additional strengthening of the role of the state, increasing its presence in the economy is not foreseen. On the contrary, we will take action to reduce the presence of the state in the economy.' It is uncertain, though, if a real policy change is underway. And even if that should be the case, it will probably first affect or rather prevent new centralization and state take-over initiatives. Rolling back or radically changing the recently approved strategy for the shipbuilding industry would be far more complicated. That is unlikely to come about until weaknesses in the strategy are commonly recognized, and several years may be needed to come to this point.

The goal of rapid development of the Arctic continental shelf relying primarily on the domestic shipbuilding industry does not look attainable. Russia will either have to accept more foreign involvement, or scale down its offshore ambitions. We believe a combination of the two alternatives is likely.

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