

# Wagon Maker to Stop Line After Halt in Orders

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Transportation Minister Igor Levitin inspecting a row of rail car wheels at a railway repair depot in Moscow. **Vladimir Filonov**

Uralvagonzavod, the country's biggest producer of cargo wagons, said Thursday that it would halt its wagon-producing assembly line in April because a Russian Railways unit has stopped buying from the plant.

More than 11,000 people in the Urals city of Nizhny Tagil could lose their jobs when the assembly line is suspended, a company spokesman said, as the two state-controlled giants disagree on the terms of a supply contract.

"We have a contract saying Russian Railways will buy 13,600 cars this year, but they told us they have no money for that many now," Uralvagonzavod spokesman Boris Mineyev told The Moscow Times.

A spokesman for Russian Railways, or RZD, said the company was not in breach of contract.

"We have agreed to buy a certain number of wagons until the end of 2010, and we can buy as many as we consider possible each year," the spokesman said by telephone.

"When the contract was signed, no one knew the crisis would come," he said.

In 2007, RZD signed a 68 billion ruble (\$2 billion) contract with Uralvagonzavod for supplies of 40,650 open-top freight cars to be delivered from 2008 to 2010.

According to a copy of the contract obtained by The Moscow Times, Uralvagonzavod was supposed to supply the state railways company with 13,600 cars for 22.7 billion rubles (\$672 million) this year.

"We don't need that many cars now. We are not the state, we are not obligated to buy to keep Uralvagonzavod busy," the RZD spokesman said. RZD is 100 percent state owned and was created from the Railways Ministry in 2003.

RZD chief executive Vladimir Yakunin said last month that the company, Russia's largest employer, might post a loss for 2009. The company has said it expects freight cargos to fall 20 percent this year as the economy heads toward its first annual contraction in a decade.

Uralvagonzavod, which also produces tanks, oil cisterns and furniture, halted its train car production -- which employs 11,670 people -- from Feb. 5 through Feb. 24. Mineyev said 6,500 workers have been staying at home with two-thirds of their basic salaries since then.

"Russian Railways told us in January that they would not be able to buy more than 4,000 cargo semi-carriages and 2,000 cisterns this year," Mineyev said. "We've already produced more than half of them, so what are we going to do for the rest of the year?"

He said the company was looking for new customers.

The RZD spokesman, however, put the total figure at 8,800 cars. "Uralvagonzavod is raising prices," he said, declining to elaborate.

Mineyev said the price Uralvagonzavod was selling for was fixed by the government in December at 1.2 million rubles, a 26 percent decrease from last year's level.

"We became loss-making but can't do anything about it," Mineyev said, adding that the wagons' production cost was 1.5 million rubles.

Uralvagonzavod said it would lose 1.2 billion rubles on sales of 4,000 vehicles to Russian Railways this year.

Mineyev said Uralvagonzavod had reached the production cost of 1.5 million by optimizing expenses by 11 percent and agreeing with suppliers to reduce metals prices by 7 percent. Still, that was far from enough.

"We wanted a reduction of 30 to 35 percent from our suppliers, which would help us at least break even with a fixed prices of 1.2 million rubles," Mineyev said.

Uralvagonzavod owes its steel suppliers -- Magnitogorsk Iron & Steel Works and Evraz -- 1 billion rubles, and the companies have stopped sending new supplies, he said.

"If we had more orders from RZD, we'd be able to use them as collateral with the banks to pay our debts to the metals suppliers," Mineyev said.

"They ask for payment in advance, which is absolutely impossible in our situation," he said. "We feel bad for our employees. It's not that easy to find another job in our city now."

Uralvagonzavod is a major employer in Nizhny Tagil, a Sverdlovsk region city of 375,700 people.

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