

## Bitumen market survives COVID-19, national project creates demand

**Better growth rate of the road network in Russia and implementation of projects under the national program “Safe and High-Quality Roads” have created a steady demand for road construction materials including oil bitumen. CREON group asked the industry experts how bitumen producers are overcoming the pandemic without direct government support.**

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The global bitumen market is growing at an annual rate of about 4%, and its volume is estimated at 113 million tons now. In Russia, production of oil bitumen is also growing. In 2019, more than 6.9 million tons of bitumen were produced, which is 0.8% higher than the year before. The interviewed experts believe that the road construction industry will remain the major development driver in the coming years. About 80% of bitumen consumption belongs to roads and highways.

The national project “Safe and High-Quality Roads” launched by the Ministry of Transport with federal and regional subsidies of 4.78 trillion rubles (\$68.8 bln) is being implemented from 2019 to 2024, and will cover 104 cities with agglomerations in 83 regions of the Russian Federation. The market participants believe that this national project has helped companies, involved in the road construction sector, to go through the coronavirus pandemic period without big losses: “We don’t feel the crisis, we are receiving government funding according to the plan, all the contracts were signed last year and we are operating normally”, - says director of asphalt concrete mixing plant. “For us, the situation was positive, the scope of work remains stable. During the pandemic, the road works on the Moscow Ring Road (MKAD) continued, and it helped us a lot”, adds a representative of the large company.

Construction of new hospitals for COVID-19 treatment in many regions of Russia also added work to road companies and to bitumen market players. For example, about 26 km of roads were laid in Troitsk and Novomoskovsk administrative districts of Moscow, 17 km of those will continue to be operated as permanent roads. “Construction of urban infrastructure is going according to the plan; in addition, new hospitals are being built that require new roads urgently, so this crisis is no obstacle for us,” says one of the largest bitumen producers.

### Disruption of Logistic Chains

The bitumen market however experienced temporary difficulties due to disruption of supply chains caused by quarantine measures across regions. “We have delayed deliveries due to traffic restrictions in some places,” says producer of bitumen. “But overall, the situation was positive for us: we received a big influx of new customers and orders, now we are planning to expand.” Companies dependent on imported equipment also experienced some obstacles: “disruptions in supply of equipment began right after the borders were closed, but we have adapted quickly to the situation by switching to Russian suppliers,” comments a source in the industry.

The beginning of the season of road construction works and the opening of borders stimulated the demand for heavy petroleum products in general. In May, export shipments of bitumen and tar increased to 72,000 tons, which is 17,900 tons higher compared to April. But the June export figures are expected to decline due to growth in local demand and to scheduled turnarounds at oil refineries. In total, the capacities of over 480,000 tons of primary crude oil processing may be under planned or unscheduled turnaround in June.

### Rising prices and infrastructure development

According to market participants surveyed by CREON, restriction of freight traffic between Russian regions in March-April pushed up prices for oil bitumen in some regions. The average spread of bitumen prices across the country was within 10%. The record growth of 34% was recorded in the Krasnodar region. “The

market mechanism for protecting road workers from fluctuations in commodity prices has been successfully applied around the world through exchange trade for a long time. The price is based not on the cost of bitumen production, but on the average market indicator for the contracted period,” says Ulyana Zvereva, Head of the bitumen binders development and product launch department of LLK-International.

The market for base road bitumen is a seller market for local producers who are in a better position than other players. The share of logistics costs in the final product is at least 25%, so the closer the supplier is to the consumer, the more affordable price he can offer. Launching additional capacities locally could reduce the delivery cost for a remotely located producer, but market participants consider that the development of logistics terminals is more appropriate. “Commissioning of new bitumen production is too expensive and requires serious economic justification. In contrast, setup of high-tech terminals that combine storage and processing, provides for handling and modification of bitumen binders, which seems to be the most appropriate solution”, says Konstantin Mogilny, General Director of Avtodor Engineering.

Road construction companies interviewed by CREON often refer to the instable quality of bitumen in the market which causes quality issues for the road surface as well. The Russian bitumen market is stabilized now, but there are still product quality concerns left, said its participants.

“The national program has a positive impact on a branch that has been formed by private enterprises and not by state-driven companies. This is a good example for an efficient partnership between state and private economy. I would like to believe that the implementation of the national program “Safe and High-Quality Roads” will contribute to a faster introduction of the PG concept in Russia: this would allow the use of materials with the necessary range of binders in the construction of federal, regional and municipal highways”, says **Sandzhar Turgunov**, General Manager of CREON Energy.

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“Bitumen, Products and Binders 2020” conference in Moscow, 10 November ([Program and registration](#)).