A "riddle wrapped in an enigma," until you find a path through the maze of bureaucrats with seemingly quixotic decisions. Ron Cruse of Matrix International talks about his experience.

By Robert Mottley

In 1995, the Russian Federation suddenly decreed that all inter-republic rail scheduling had to be approved by Moscow.

There was no warning of this edict, since the Russian bureaucracy does not tip its hand in regard to decisions that affect the Commonwealth of Independent States (CIS).

The ruling stopped all rail traffic for two days, a delay especially onerous for a U.S. shipper of containers that had been caught and "frozen" on a siding.

Matrix International Logistics Inc., an American logistics service company based in Alexandria, Va., had responsibility for the stalled cargo. "We learned that there was one guy in Moscow with the power to sign all of the new forms requesting approval," said Ron Cruse, Matrix's president.
Within hours, more than a thousand petitions inundated that bureaucrat’s office in a Stalin-era building near the Kremlin. “It was a labyrinth,” Cruse recalled. “Long, endless corridors, no signs showing the way to visitors.”

“We had the new form, properly filled out, that would start our shipment moving again. The question was how to get it to the appropriate official and have him sign it quickly.”

Sergey Kuzminykh — director of Matrix’s Russian subsidiary, Matrix St. Petersburg — polled his logistics staff in Moscow, which came up with a very Russian solution.

Through informants in the office building, Kuzminykh’s people learned that the bureaucrat “only worked one or two days a week, and had stacks of requests piled up on his desk,” Kuzminykh told American Shipper.

“What did we do? We found the cleaning woman for his office, and asked her to put our form on top of the pile on his desk.”

Within a day, permission arrived for the shipment to proceed. And in the weeks that followed, the rest of Matrix’s transit requests cleared as swiftly.

Local Help. “It just kills U.S. shippers to know that they are at the capricious whim of such a system,” Cruse said. “More of them are obsessed now about beating the game, because markets in the CIS are expanding so much.”

Many companies that were cautious in 1992-95 about shipping into the CIS “have decided that the benefits outweigh the risks,” he said. “They are finding that’s it’s best to ship with a ‘touch’ that’s indigenous, and the only way to do that is to use reliable, in-country logistics teams.”

Matrix currently handles CIS-bound goods from 175 clients, 50 of them multinational corporations. It has moved 20,000 individual shipments to the CIS in the last four years.

The company works for clients as diverse as Westinghouse, Hughes Technical Services, Bechtel Corp., the U.S. State Department, FMC Corp., Arthur Andersen, General Electric, Honeywell, Sierra Nuclear, and Occidental Petroleum.

In the CIS, Matrix St. Petersburg has a total of 100 employees working at offices in St. Petersburg, Moscow, Minsk, Yekaterinburg (in Russia), Kiev, Mariupol, Zaporizhzhya (in Ukraine), Baku (in Azerbaijan), Alma-Ata, in Kazakhstan), and Bishkek (in Kyrgyzstan).

(Note to readers: the government of Kazakhstan has recently decided to drop the ‘h’ from its name, previously spelled Kazakhstan. Kazahks are now Kazaks.)

The company has plans for additional offices for Khaborovsk and Nizhnevartovsk in Siberia.

Night Shifts. “Before Russia opened up in 1992, we had 35 people working in Alexandria. Today, we have 65-70. Our new hires are involved with Eastern Europe and the CIS. Most employees are what we call project or program coordinators. They actually are moving shipments, getting status reports. All have to be extremely computer-literate,” he said.

“With my limited computer abilities,” Ron Cruse admits, “I’m unhirable by my own company today.”

Because Russia is eight hours ahead of Eastern Standard Time, most of Matrix’s Russian-fluent staff return to their offices in late evening for an hour or so.

“IT’s become a habit for them,” Cruse said. “We’re all obsessed with the puzzles and problems in the CIS.

“Every month, something disastrous happens in their bureaucracies. Our clients know it isn’t our fault, but nonetheless, if shipments are stopped or things aren’t happening right, you have to overcome it.

“Every pitfall is going to snare you at least once. The republics have all changed their customs dramatically. Half of our CIS meeting every Friday afternoon is devoted to what has changed in the last seven days.”

Matrix gets updates from its CIS subsidiary and from clients.

“We have hundreds of bits of information flowing in here every week to our coordinators. We try to disseminate what the tips mean, because there is usually never any formal notification of a rule change in the republics,” Fruchterman said.

“You hear first about new forms from the grapevine around the ports and trucking centers. Then, there may be a confirmation in news stories published in Russian-language papers and the English-language Moscow Times,” said Cynthia Srisuwan, Matrix International’s supervisor of certificates and licensing.

“We have a special software program that we wrote and copyrighted which will also do documents in other languages. We
had to do that for Cyrillic, for so many of our forms sent to the CIS must be in Cyrillic,” she said.

Early Days. Ron Cruse admits “there was a single, gnawing memory that was responsible for my flying into Russia as soon as it opened up in 1992, after the collapse of the Soviet Union.”

“That memory had to do with an earlier period of my life, before Matrix, when I worked in and out of Saudi Arabia. This was in 1981-85, when the Saudi buildup was reaching its end.”

“By then, all of the Saudi relationships had been made. The most powerful Arabs who had a say in logistics had bonded with American or English or German companies. I thought to myself, ‘oh, to have been here first, on the ground floor of all this.’”

“That’s what drove me to Russia. Matrix, in ’92, had clients who wanted us to assess what was possible there.”

“The West has this ‘riddle-wrapped-in-an-enigma’ mindset about Russia that is not very conducive to doing business there,” Cruse said. “Today, the lure of the markets in the CIS is eroding old fears, but some people are just plain scared about shipping to Russia.

“Difficulties remain, but much has changed for the better in four years. Not a day went by in 1992 and 1993, when I was sitting in a dreary hotel in Ukraine or Kazakhstan, that I didn’t think, ‘well, there’s nobody else here. I think this will pay off one day.’

“I knew that billions of dollars of product were on the way, but I didn’t expect the market expansion that’s occurred in four years.”

Bonding Locally. As was Cruse’s habit, he began looking in St. Petersburg and Moscow for an appropriate Russian partner. He soon found out about Antram, one of the first logistics companies to be incorporated legally under the new federation government.

Sergey Kuzminykh, president of Antram, built his company from a close-knit core group of former Soviet merchant ship officers. Ten of them were ship captains farmed out for foreign currency by the former Soviet Union. They had worked for Greeks, Panamanians, all of the principal flag registries.

“We charter between 10 and 20 flights a month, all over Russia, picking the planes and their pilots. At this point, the Caucasus and Siberia lack reliable air delivery systems, so our services are in demand.”

With only six months of capitalism under their belts, Kuzminykh and his officers had become wary of foreigners wanting to partner with them.

“We had some very bad experience with other Western companies,” Kuzminykh said. “They promised us the world, and then we were not paid, business did not materialize.” Antram had, in fact, never been properly compensated for any work originating outside of Russia.

Cruse and Kuzminykh warmed to each other, and soon Matrix International and Antram formed a single company, Matrix St. Petersburg.

“We were going to call our company ‘Matrix Russia,’” Kuzminykh explained, “but in 1993 you had to pay considerably more to register anything using the name ‘Russia.’”

“It’s still costs about $50,000 to do that, so we’ll probably keep St. Petersburg in the name for a while,” Cruse said. “Matrix St. Petersburg comprises a joint stock company, which makes our Russian participants very happy. It’s not a joint venture, but an exclusive arrangement between us and them.”

Many Russian professionals earn only $600 to $900 a month. Western firms typically pay their Russian employees two or three times that. “We are in the top range for compensation,” Cruse said.

The median age of former sea captains in the firm is 44 to 48. “We have a whole crew of chief officers, in their mid-30s,” Kuzminykh said. “There are also engineers, mid-30 to mid-50s, who can fix any piece of machinery.”

First Client. The deal had hardly been struck between Cruse and Kuzminykh when a client appeared in dire need. The U.S. State Department wanted to fly powdered milk into the CIS as a humanitarian cargo.

“No one could guarantee jet fuel,” Cruse recalled. “The containers of milk were stuck in St. Petersburg. The State Department came to us, raw as we were then in our Russian operations.”

In 24 hours, Kuzminykh and his associates produced an aircraft, an IL-76 cargo jet, and fuel obtained through Russian military connections. Cleared through Russian customs, the containers of milk
How Matrix has built its business

Matrix International Logistics has a new owner — International Logistics Ltd., whose owner is a company headed by former U.S. Treasury Secretary William Simon.

International closed the purchase of Matrix in November. Sources close to the deal said it provides Matrix with operating autonomy. Payments in cash and International Logistics stock for Matrix’s co-presidents will be spread over five years.

The acquisition is the latest in a series for the Simon-led company, whose other recent purchases have included Beks International and LEP North America (page 79).

Matrix has a total of 150 U.S. employees in Alexandria, Va.; San Francisco; Los Angeles; Houston, and Norwalk, Conn. In addition to its activities in the CIS, the company operates in Africa, Asia, and South America.

Four co-presidents run Matrix as equal partners: Ron Cruse, 41; Paul Smith, 51; Doug Cruikshank, 48, and Steve Hitchcock, 43. Cruse, in Alexandria, handles all liaisons in the CIS, Africa, and Asia. Smith, in San Francisco, deals with South America.

Cruikshank and Hitchcock head an international forwarding and trucking unit, based in Norwalk, which concentrates on executive relocations in and out of the New York area.

“Matrix has had the United Nations contract for UN personnel for years,” Cruse said. “Most of our trucks are found in and around New York, where we come closest to being asset-based. We also train our own bonded moving crews.”

The co-presidents’ separate responsibilities “keep us off each other plate,” he added.

The addition of Matrix will give International Logistics a firm grip on the CIS, since all of Matrix St. Petersburg’s personnel and operations will remain intact. For Matrix, International’s deeper pockets will permit further expansion into the CIS.

Difficult Areas. Matrix, founded in 1986 “before logistics became a buzzword,” Cruse noted, did well from the beginning in shipping “to the roughest parts of the world where there was no infrastructure. My bailiwick within Matrix was Africa, Asia, and the Middle East.

“I would go out and spend a lot of time whether the project site was in Lagos, Dakar, Nairobi or Jakarta. We got stuff into where no one else really wanted to go. In Africa, for example, many other logistics providers wouldn’t ship anything north of South Africa.

“We found local guys who were committed, and made relationships and partnerships with them. I’d been doing that for years before Russia opened up. I would normally look for the smaller, entrepreneurial type of expediter.”

For example, Matrix had a three-year contract servicing a large communications station built in Sri Lanka. Cruse stayed for weeks on site, interviewing “guys after guys until I finally met the right one for us to use. I knew it within 10 minutes of talking with him.”

“When you’re appraising out in the field, you’re riding by the seat of your pants,” Cruse said. “I’ve done that now in 50 countries. At this point, my instincts prove to be right as many times as they are wrong, but that sort of assessing is a long way from rocket science.”

The incentive for starting Matrix was “the head-scratching my partners and I had done over why we had seen so much U.S. government cargo stranded in foreign ports. ‘There’s got to be some reason for that,’ we figured, ‘and there’s business for us if we can untangle the strings gnarling up the cargo.’ Sure enough, there was,” Cruse said. “Most of what we do to unfreeze cargo, to be effective as logistics in so-called difficult areas, has to do with paperwork and partnering agreements.”

‘On Spec,’ At First. Matrix’s partners had to understand local customs. “They had to be able to tell me how to do my paperwork to make sure I didn’t have problems,” Cruse said.

“If the steamship line won’t let you leave the area with their container, well, you’re not going to do it unless you can run a pretty effective transloading facility.”

“We would tell clients, ‘there are areas where you aren’t going in country effectiveness to the limit. As Cruse put it, “a yahoo in the Midwest” — an employee of a company that donated goods for the State Department — put a gun in one of the humanitarian shipments and didn’t tell anyone.

“All hell broke loose in Russian customs when the weapon was discovered,” he said. “It was a shotgun. The employee had heard there was great grouse hunting where he was being transferred, and just put the weapon in without listing it in the inventory.”

The State Department, aghast, terminated its arrangements with the donor company. In Russia, the damage had been done, and customs scrutiny has remained intense.

“We’ve used Matrix in each of the CIS republics for three and one-half years,” said James Bayer of the State Department. “They have been superb all along, taking care of the smallest details.” Most shocking to the department’s accountants. Matrix has lowered the cost of chartered medical flights by 45 percent.

Bonded Carriage. That happens, in part, because Matrix operates its air charters to the CIS out of Maastricht, in the Netherlands. “We charter between 10 and 20 flights a month, all over Russia,” Cruse said; “picking the planes and their pilots. At this point, the Caucasus and Siberia lack reliable air delivery systems, so our services are in demand.”

Another expense that Matrix has been able to control is the cost of bondedness, which in Russia “has to do with the ability
and caught the eye of William Simon

to be able to get a safe or effective transload. You really want to ship
your own container. Get a seal on it, and we’ll have it resealed after
customs, if it’s necessary. Run it in that way, that’s your safest
route. Maybe not your cheapest, but your safest.”

“We didn’t bill our shippers for the groundwork necessary to
obtain that information. Our own meter was running, which is still
the way we do it when we’re breaking new ground. Everything is
done ‘on spec’ until you get your own logistics systems set up.
Matrix is doing that now in Bosnia. In short, nobody but you is
going to fund your own initial spadework.”

Cruse said Matrix makes this pitch to a shipper wary of a foreign
country with a difficult reputation: “We’ve been there, and we know what does and
does not exist in terms of the local infra-
structure. And if you don’t think we’ve
done enough preliminary work there, we’ll
go back again.”

Can regular transportation modes be estab-
lished in Bosnia? “Matrix has three differ-
ent contracts with companies rebuilding local
infrastructure,” Cruse said. “We’ve already
moved material into Bosnia successfully. You
do hold your breath, some days.”

Matrix has assessed Split and Ploce as entry points, and is
looking at trucking routes into Sarajevo and Tuzla. “Everything
depends on whether the civil war resumes when IFOR troops pull
out,” said Bob Fruchtermann, Matrix’s vice president. “In a way,
Bosnia is a replay of how we got into Russia. Clients led us there.”

Money Trails. Matrix scouts the trail ahead of finding clients.
“What we do in Alexandria, conveniently across the Potomac from
Washington, D.C., is to follow what are going to be major funding
initiatives by entities such as the World Bank, the State Depart-
ment, the Department of Defense, and so on,” Fruchterman said.

“We’ve never paid a lobbyist,” Cruse said. “We read all publica-
tions that follow money trails. That data’s in the public domain.
We sniff through non proprietaries, financial ‘yellow pages’ that tell
who is getting the large federal contracts, and follow the funding.”

“Very early, Matrix will go into a program where it is probably two
or three years away from shipping, and we become very much part
of the planning process.”

“Sometimes, we’re not contracted by the government, which
is just the funding source. For example, Westinghouse has a
turn-key deal with the Department of Energy to modernize
Russian and Ukrainian reactors. We had then to go to
Westinghouse to make our pitch for handling their CIS logistics,” Cruse said.

In terms of dollar volume, 35 percent of Matrix’s federal-
oriented business is directly with the government, and 65
percent comes from multinationals who are given the turn-key
responsibility for a project.

Courting Shippers. How does Matrix make its money?
“The prime way is by adding value to door-to-door service for
a client,” Fruchterman said. “There’s a margin. Some of our
business is strictly commission, depending on the size of it,
from ocean carriers and truckers.

“In the CIS, where we control all of the actual activities, in
terms of processes and documentation, there’s a margin in that
physical part. The money comes from the fees we can charge
for those value-added services.

“We run all of the options plausible for a customer. Normally,
there are three, four, or five routes or ways you can get any piece
of equipment to any destination. There’s different carriers you can
use, air or ocean, to get something into the CIS with the maximum
prospect of safety.

“There are always cost differences. We lay out the options,
assign a risk probability, and tell a client, ‘this is the one we think
is the safest route. But we’ll use the cheapest route, if that’s your
wish,’” he said.

Usually, Matrix’s clients go with a combination of options.
“Everyone wants a comprehensive menu,” Cruse said. “We do far
more business with mid-sized U.S. shippers than with larger
ones.” As for smaller than mid-size shippers, “so long as they do
their business straight and pay their bills, we’ll take on almost
anything,” he said.

Matrix clients said that the company’s fees are reason-
able, 10 to 15 percent of costs, not as much as the 20 to 25
percent-plus “that you could expect to pay at the high end
for shipping into the CIS,” said one source.

to move cargo without using a common
carrier,” Cruse said.

“This is changing as we speak. Right
now, when you enter an airport, or port, you
must have in-transit clearance, meaning
that you are in transit to your destination
where your duty is to be paid.”

“The carrier for your goods, either Ma-
trix or a trucking company, let’s say, of our
choice, must be bonded.”

“These rules for bondedness vary accord-
ing to the port, or airport, chosen for entry.
This game never stops. We have to keep up
constantly with the bonding differences
between St. Petersburg and Moscow.”

A logistics provider doesn’t file a bond.
“You have a license where you have
bought a bonded ability,” Cruse said,
“but you can’t buy that bonded ability in
all areas.”

In Moscow, Sheremetevo-2 Airport “is
the biggest pain, as it always is, leading the
way, in terms of in-transit bonding. Right
now, as most other people in our business
do, we avoid Moscow and don’t use
Sheremetevo-2 Airport.”

Other airports besides Moscow are get-
ing more business because of Sheremetevo-
2’s avarice. Unfortunately, all international
flights go into that airport (Russian domes-
tic flights use Sheremetevo-1).

“We save our clients money by trans-
shipping to other points in Russia,” Cruse
said. “That’s why we send our charters
directly from Maastricht, to avoid going
through Moscow.”

“Our charters go directly by air from
Maastricht to their CIS destination, thereby
avoiding Moscow, or we’ll route them by
land through St. Petersburg.”

Dismantlement. In 1994, the Defense
Nuclear Agency — now called the Defense
Special Weapons Agency — asked Matrix
to take part in discussions to plan the Rus-

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Matrix won a DNA contract to transit all of the dismantlement equipment, as well as a second contract to transit, warehouse, and deliver spare parts for on-going maintenance of the ‘deconstruction’ materials.

Kuzminykh established bases for mobile Matrix logistics teams in Yelets, in the Urals, and in Zaporizhzhya, inthe Ukraine. Each team tracked the cargoes, literally accompanying them, if necessary, over borders and through bureaucratic fieldhoms.

“In the U.S.A.,” Kuzminykh said, “you simply send trucks down your Interstate highways. Except for weighing stations and some state border requirements, like California’s affecting fruit, it’s so easy by comparison. Here, we have ‘paper’ road blocks that can stop anything moving as surely as a barrier put over the highway.”

Despite the hazards, each of the agency’s shipments arrived on schedule.

Bob Jagger, of Hughes Technical Services, told AmericanShipper that “Matrix’s people in Russia are skilled and discreet. They are excellent in dealing with our freight, and in helping us with an incredible amount of paperwork.”

At one point, Hughes and Bechtel asked Matrix’s assistance in obtaining visas for dozens of employees who had to accompany the dismantlement equipment. Cruse assigned two Russian-fluent managers in Alexandria to work full-time on the companies’ visas. After a few days, the KGB visited Matrix’s offices in Alexandria, St. Petersburg, Kiev, and Almaty. The inquiries made in Virginia were more polite, but the line of questioning was the same. “Why are you inviting all of these people into the CIS?” the KGB wanted to know.

“They understood quickly that it was no cloak-and-dagger operation,” Fruchtman said, “but a necessity of the dismantlement program.”

Interestingly enough, there was no military presence at all in the nuclear dismantlement operations. “The U.S. government wanted maximum security and the absolute safest routes. They gave it to us and said, ‘you deal with it, security and all,’” Cruse said.

Beyond Maps. What does logistics mean in Russia? “From the planning stage, before moving any shipments, it means an ability to tell a client concretely what he can and cannot do,” Cruse said. “There are all sorts of size requirements. High, wide and heavy on the railroads means one thing, and another on the roads. “You also have to know where you’re going. Most roads in Russia are open — but that has different meanings. Road conditions mean as much as access, especially if a route is ‘open’ 12 months year.

“You have west of the Urals and east of the Urals,” Kuzminykh said. “What’s the difference? The Urals. Generally, you can say that roads west of the Urals are better, but there are always exceptions.”

For example, Matrix is shipping components to modernize a paper mill that is closer to St. Petersburg by road than by rail. However, the road is impassable in winter, a point the U.S. shipper did know before being told, “We’ll ship by rail there,” he chuckled.

The Russians use the same size container trucks — 20-footers and 40-footers — as in the U.S.

But rail is the preferred mode of transit in Russia. “A tremendous amount of the cargo over there is either on a turn-key basis, or being bought CIP railroad,” Cruse said.

“CIP means it’s being bought from the U.S. side, including inland transportation, to be delivered to the railroad, which is specified on the bill of lading. If it’s a turn-key contract, a local truck will pick it up for delivery. That depends on the terms of contract.”

No Faxes. In-transit papers physically accompany the container, whether it’s on a flatbed railroad ‘wagon’ or trucked.

When the container goes by rail, the documentation is carried by the engineer or another member of the train crew.

By truck, important documents of transit are carried in the driver’s cab, near at hand for incessant inspections.

“Official documents are the only ones that can be used in Russia,” Cruse said. “Authorities don’t accept faxes. Right now, it’s harder to send goods by truck than by rail, because of the bonding regulations we’ve talked about.

“There are a lot of reliable trucking companies. Vodka-soused truckers don’t plague us, because we pick our people,” Kuzminykh said.

“We have a client today in Canada who can’t get its containers through St. Petersburg faster than in a month. A lot of logistics providers take two weeks to a month. We are generally three to five days in moving cargo through that port.

Cargo Flow. “We have our own operation in St. Petersburg. Customs is part of it, but there’s a whole management procedure for getting a container right off the vessel.”

“If necessary, Matrix St. Petersburg assigns someone to a particular customer to ‘walk it’ through customs formalities. We’re doing hundreds of containers like that,” Kuzminykh said.

“There are also things you can do to assure that containers don’t get stuck. We will cut more OBLs, ocean bills of lading, because sometimes, you have 30 containers transiting on an OBL, if you don’t get one of them there, you have 29 containers stranded. To make sure that doesn’t happen, we clear them in sections and move them in sections.”

“All of the big U.S. logistics providers say they are ‘in’ Russia, but they really are not. They are using agents,” Cruse said. “That shows up in their handling of cargo.”

“There are agents who will do business for anybody, but they won’t prioritize your cargo. They might not go to make sure it fits the permit you have. They won’t do all of the extra things, and that’s why a lot of people have had cargo stuck.”

“They won’t go down to a shipyard in snow and ice to actually take your container off a vessel and put it onto a secured area, rather than letting it go into the inventory stack — saving you at least two weeks.”

Riding Shotgun. Western shippers have not had much good to say about the port of St. Petersburg. Matrix has avoided much of the pilferage that still goes on there by negotiating a yard for its own goods that is part of a security compound. The company can transship, actually consolidate cargo, in that haven. In return, Matrix outfits the security company with uniforms, flak jackets, vehicles and equipment brought from the U.S., excepting weapons.

The simplest solution for concerned shippers is to pay for armed guards who ride with a truck until a container reaches its destination.

Matrix’s clients have found that paying for security reduces their insurance premiums, easily paying for the armed escorts.

Cruse defined two levels of crime found in Russia. “Banditos are everywhere. They always want to steal your equipment. We rarely have a problem with them. Matrix’s Russian employees know how to take care of shipments, even if clients don’t pay extra for additional security.”

As for the other level of crime, “the Russian Mafia, you do everything in your power to stay away from it. In four years of operation, we haven’t had what I would call a Mafia problem.”

“We’re not in a real sexy business for the Mafia,” he said. “There’s far more money in oil, gold, steel and copper.”

Finns dispassage the port of St. Petersburg, according to Cruse, for a very good reason. “Shipvia Finland,” goes their pitch. “It’s safer.” However, it is not widely known — outside of the brokers involved — how expensive it can be to ship CIS-bound cargo through Finland.

“The Finns charge a tariff on cargo moved from the port of entry in Finland to the
Russian border that increases costs to shippers at least 15 percent, and usually more than 20 percent,” Cruse said.

“This is not an arguable point. Believe me, that tariff is passed on directly to the shipper. In our weapons dismantlement contract, we had 60 days to ground and customs clear the equipment going to Belarus, Ukraine, Kazakhstan and Russia.

“Because you can’t always get sailings into St. Petersburg that are timely enough to meet a 60-day deadline, we had to send a good percentage of cargo through Finnish ports. We knew that every time we did that, the overall cost was higher.

“The shorter the distance, the greater bite to that Finnish hike. The result was an added 20 percent in costs on longer hauls, and as much as 30 percent more on shorter hauls when we went through Finland.”

**Cash Up Front.** Throughout the CIS, all moves are paid in advance. “Moving the money is still as much work as moving the freight,” Cruse said.

By law, Matrix St. Petersburg’s employees are paid in local currency. “How you pay for services is a very sensitive issues in a number of the FSU republics,” he said. Many truckers will only take their payments in dollars, cash up front. “We take pains to move our money properly through Russian banks. We do have to move a lot of dollars to pay for services.”

**Who You Know.** Westinghouse, another Matrix client, has contracts with the Department of Energy to modernize, upgrading from analog to digital, many of the warning systems in nuclear power plants in Ukraine and Russia. “We started with Westinghouse in the Ukraine,” Kuzmynhkh said. “They were having very big problems getting their stuff through customs and on to the nuclear plants.”

“They were using Ukrainians, but getting nowhere. We took their first shipment, got it in on a routing they hadn’t been aware of, on to its destination in the Ukraine in a matter of days, when they had been trying for months. They became immediate believers.”

Charles Roman, a Westinghouse spokesman, said that “Matrix, for two years, has indeed done for us what others didn’t, or couldn’t do. They’ve come to know Russia and Ukraine from the inside, which is necessary for logistics to be most effective.”

Five months ago, a division of Baker Hughes had $3 million of oil field equipment confiscated in Siberia. The seizure came without warning, for no apparent reason. Angry and shocked, the owners of the equipment came to Matrix and asked for help.

“The way we handled this shows the difference between Russians and Americans,” Cruse said. “Russians are prideful people, and won’t say what problems are.

“In the West, we would say, ‘I don’t know that you can do this, this, or that.” In Russia, they want the job. They don’t like to make excuses, so the answer is silence. Sometimes, you won’t know the impossibility of a project until much later.”

**Social Time.** “Our Russians knew how to handle the matter of the confiscated equipment. They knew that face and pride are important. The more Asian a person, the more ‘face’ is involved.”

Cruse asked Matrix’s employee chosen to fly to Novyy Urengoy to get back the equipment how difficult his job would be: “What are your chances of success?”

“I cannot say for sure,” came the careful reply. “Maybe 20 percent can, 50 percent cannot.”

“That shocked me,” Cruse said. “We have all banded now to the point that bluntness comes more naturally.”

Upon landing in Siberia, Matrix’s emissary spend some social time with the bureaucrats involved in the seizure. “Their referrals to each other were respectfully formal at first,” Cruse said. “Soon, they were most respectful and least formal.”

“At a point in negotiations, Russians may call you by your father’s name. My dad’s name was Wayne. So to me, they would say, ‘Ron Wayneovich.’ Meaning, ‘Ron, son of Wayne…” Our man in Novyy Urengoy knew that was a very good sign when he was accorded such a courtesy.

**A Way Out.** From that point, the talk was straightforward. The authorities had seized the equipment because they thought ‘someone was trying to sneak one over on them’ because an incorrect consignee had been listed on the bills of lading.”

“Now this wasn’t the shipper’s fault,” Cruse said. “An error had been made ‘on the ground’ away from the port of entry. Our employee politely educated the Siberian customs authorities as to the intent of the shipper.

“Customs had seized the equipment without proper notification, so they were willing, because they had jumped the gun, to reconsider. ‘Alexander Petrovich,’ they said, ‘we should have given you one more notification. Now, since we understand there was no intent of contraband, we will lift the confiscation. However, your client must do this, this that, to maintain control of the equipment.”

“That wasn’t done in a day. It took a couple of weeks for Matrix’s representative to settle in and get to know the authorities. Of course, the owners of the equipment were overjoyed — I would say stunned — at what our man had done. I think that how he did it is just as important in understanding Russian business culture,” Cruse said.

**Dueling Certificates.** FMC Corp., a multinational giant, also supplies oil field equipment in Siberia. “We had substantial customs problems,” said FMC’s Keith Dempster. “We were unable to get our equipment delivered.

“Six months ago, we turned to Matrix. I had heard the stories about them. I mean, Matrix refers you to their clients for testimonials. For us, there’s been a major improvement in service. We not getting hung up in the new customs requirements.”

FMC is also being kept informed by Matrix about the current hot topic that has all logistics providers active in Russian an uproar: GOST, promulgated by Gosstandart, the State Committee for Standards.

Through this state bureau, the Russians are looking to standardize every piece of foreign-produced machinery. They are setting standards and actually
testing to make sure imported machinery meets their standards.

Today, 30 percent of all manufacturing equipment being used in Russia needs to have GOST certification to be imported.

Yet another certificate is required for mining and oil field equipment by Gosgortekhnadzor, Russia’s Federal Mining and Industrial Inspectorate, an agency founded by Peter the Great in the 18th century.

Gosstandart, which dates to the early 1920s, also certifies foreign-made oil and gas equipment. GOST certificates are required for importing and customs clearance. Gosgortekhnadzor’s certificates must be in hand before the equipment shipped can actually be used.

Aghast at GOST. “We have to figure out how to get the certificates,” said Matrix’s Cynthia Srisuwan. “Often — but not always — Russian authorities will accept proof of international testing if they determine that international certification has already met Russian standards. Proof of such certification has to accompany your request for the GOST certificate, which you must have to go with your shipment.

“This is a new wrinkle that has many logisticians struggling. You have to have Russians dealing with GOST in Russian, or you really won’t get anywhere,” she said.

Matrix handles a client’s GOST certification ahead of shipment. Normally in Russia, such certification is done — less conveniently — at a shipment’s destination. Some destinations are more stringent than others. Siberian oil sites are particularly touchy, much more difficult than other regions of Russia.

Is this protectionism? “The Russians seem to look at it like this: the U.S. and Europeans have standardization and classification requirements, and they feel they should have their own, applied for, and listened to. There are healthy fees going with this, too. The oil and gas service areas are being particularly affected. Because U.S. equipment is so far advanced, their licensing for the testing and safety inspections of these products is becoming quite an issue,” Cruse said.

How many months in advance would Matrix St. Petersburg have to start the paperwork to move an oil drill into Russia on Jan 1? “That would depend,” Srisuwan said. “We’d go to one of their testing people, saying: ‘This is what we want to ship. What do we need?’ They may say, ‘Whoa, this needs to be tested first.’ Then you, our client, may have to send a drill to Russia for the express purpose of being tested. That could take months, perhaps a full year.”

No Copying. “All GOST papers must go through customs with the container or equipment being shipped, or they won’t move one foot,” she said.

“You also have to move the official document to destination to actually exert customs clearance. You don’t copy anything in Russia and send it anywhere. Not yet.

“I don’t think Russian customs will be ‘paperless’ in my lifetime,” sighed Cruse. Where else in the world are faxes not accepted and such emphasis placed on original documents? “Parts of South America are almost as bad,” he said. “India requires original documents.

“The reason for Russia’s toughness is the ability of the Mafia to copy documentation,” he said.

“Before a shipper despairs, you must remember that anything is possible in Russia. If there’s no special problem, you could have GOST permission in three weeks to three months.” Matrix has obtained GOST certificates for some clients in as little time as three days.

“In any involvement with Russia, you generally have to become a fatalist to retain your sanity.”

Gosgortekhnadzor certification can take a minimum of two months, and is rarely done any faster.

Would bribery work? “That’s illegal for American companies, and their Russian subsidiaries,” he said. “Bribery doesn’t guarantee results. It’s much better to demonstrate a habit of awareness and respect for their law, however tedious it may be.”

Kazak Oil. Matrix has flagged two Russian markets as having almost unlimited potential. The first is a new oil field discovered in Kazakhstan, which is already bringing in major oil companies and scores of providers of oil field equipment. “We meet all of them at the runway in Almaty, Kazakhstan,” Cruse said.

“They’re asking the following questions: ‘What is your actual set-up? Do you operate your own exclusive company? Can we actually meet your people and ride around town with them? Are you up on e-mail and fully computerized?’

“If you can say ‘yes’ to each query, then they want to talk with you beyond the airport terminal.

“Our office in Almaty is humming.”

“We are also believers in the nascent Russian timber market. Seventy-five percent of the world’s harvestable lumber is in Russia. That will be a huge export commodity when mills are modernized. Right now, Russian timber has to be shipped out as logs. That will change very soon. We are actually shipping equipment that will turn logs into lumber and paper before being exported,” Fruchterman said.

In the last year and a half, Matrix has begun signing direct shipping agreements with Russian production companies. The various “Nettygas” companies alone will move $400 million worth of materials in 1997. “That’s a very conservative estimate,” Cruse said. “They are out soliciting their own services through procurement entities based in Moscow. The funding comes the World Bank, but you have to be able to reach into the local production companies.”

Cyrillic Input. Arthur Andersen, Deloitte & Touche, Peat Marwick, Price Waterhouse — all blue-chip accounting firms and Matrix clients — have large privatization and tax reform programs in Russia that require moving computers in by the thousands. They are helping banks to develop internal systems, such as those for wiring money, and to develop better methods of accounting.

“We ship computers and core office set-ups so that Russians can input Cyrillic software over there,” Cruse said. “Our job is to take the equipment in, install software and peripherals over there, box it, and delivering it to hundreds of areas.”

John Summers, of Arthur Andersen, said that “Matrix seems to have the best network over there for doing what we need to the units we ship, and then for getting them on to their destinations.”

The range and effectiveness of Matrix’s involvement in the CIS, despite all of the bureaucratic hurdles and other deterrents that still deter some shippers, depends in the end on the performance of Matrix St. Petersburg.

The company’s Russian partners have done well enough for Matrix to catch the eye of William Simon’s International Logistics Ltd.

The caveat remains that not everyone chooses so well, and no one in the logistics business is immune from the current horrors of CIS bureaucracy.

As Ron Cruse concluded, after a long day of e-mail concerning yet another out-of-the-blue decree regarding in-transit permits, “in any involvement with Russia, you generally have to become a fatalist to retain your sanity.”