The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

$14Bln Plan for Far East Railroad

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December 05, 2010



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Prime Minister Vladimir Putin outlined plans for a multibillion-dollar extension of the Trans-Siberian Railroad on Monday, which he said would boost commodities production and investment in the Far East.

The announcement came as Putin told a conference of United Russia officials from the Khabarovsk region that modernization of key Pacific ports, including Vanino, Nakhodka and Sovietskaya Gavan, was being "held back by bottlenecks" on the Baikal-Amur Mainline, one of two main railroads crossing Siberia.

"In the next few years we'll need to upgrade the Trans-Siberian Railroad and significantly increase BAM's throughput capacity. Until just recently, I was being told that BAM had been built but that it wasn't being used," Putin told the meeting, according to a transcript on the government web site.

"But now BAM's capacity is insufficient, and this has taken place in the past three or four years," he said.

BAM, which runs parallel to the main Trans-Siberian line on its northern side but takes a more direct route to the Pacific, took nearly 40 years to build after World War II as a strategic alternative to the southern route, which runs closer to the Chinese border.

BAM-2, as the project is being called, will cost an estimated 448 billion rubles ($14 billion), including 380 billion rubles for infrastructure, state-run Russian Railways, or RZD, said in a statement.

The expansion "will require major funding, but all of it is justified," RZD president Vladimir Yakunin said in the statement. "The realization of this project will certainly require financing from the federal budget."

Following his speech, however, Putin grilled Yakunin on the project's details.

Yakunin said he wasn't sure how long a bridge spanning the Amur River would be, because funding for the project was supposed to come from the state's Investment Fund. He also complained that RZD could not draft a detailed investment plan because it did not know how much funding the Finance Ministry would allot.

"Of course, there's the Finance Ministry and there are limitations to budget funding, but there are also priorities," Putin told Yakunin, who has headed RZD since 2005. "I mean, this isn't dependent on the Finance Ministry, but above all on you."

RZD said in November that more than 2.2 trillion rubles of investment in rail infrastructure would be needed by 2020, as well as more than 900 billion rubles to upgrade locomotives.

The centerpiece of BAM-2 will be a new Kuznetsovsky Tunnel to improve connections to Vanino and Sovietskaya Gavan. Putin said the tunnel, which was started in 2008, would cost 59.5 billion rubles ($1.9 billion) and would also include new line to Yakutsk.

The new tunnel will stretch nearly 3.9 kilometers and replace a shorter one finished in 1945, according to Gudok, RZD's official newspaper.

The state-run railways monopoly also found itself on the defensive Monday over the rates it charges to carry freight.

A representative of Petropavlovsk, which operates several iron-ore deposits in the Far East, told Putin that transportation costs had risen significantly in the Far East, with a Russian Railways unit charging $43 per metric ton of cargo, compared with $13 when the project began.

Rental costs for the wagons accounted for 60 percent of transport costs, which the representative — who was unidentified in the government transcript — said was casting doubt on the effectiveness of developing far eastern ore deposits.

Putin called on anti-monopoly officials to take a “painstaking” look into rates charged by RZD's subsidiaries for the use of freight wagons. He also told Yakunin that he should have

"privatized the company a long time ago."

Putin did not name the unit, but they appeared to be discussing Freight One, which is also known by its Russian acronym PGK.

Yakunin, who defended the company's pricing, said the anti-monopoly probe would be "no problem."

Analysts said privatization might not have been the answer Petropavlovsk was hoping for.

"The complaint or concern I've generally heard from mining companies is that once Freight One is privatized, rates will rise," said Georgy Ivanin, an analyst with Alfa Bank. With 200,000 wagons, Freight One is estimated to control 20 to 25 percent of country's rail freight market.

RZD's draft budget for next year, which was approved by the government Dec. 1, anticipates revenue from the sale of a 75 percent stake in Freight One, Kommersant reported Monday. Revenue from the sale was estimated at $2.93 billion, valuing entire company at $3.9 billion. Analysts called the estimate conservative.

Another RZD unit, TransContainer, raised $400 million in an IPO in Moscow and London last month, and the rail monopoly is also looking to sell its TransCreditBank to state-run VTB Group.

Boosting miners is a key element of the development plan for the Far East, and Putin noted that the government had removed taxes on tin mining in remote regions of the Far East starting next year. The measure, he said, could create 2,500 jobs in Sakha and the Khabarovsk region.

The Far East is receiving ample federal funds — more than $5 billion annually — for development, Putin told the conference.

He highlighted a plan to modernize 500 kilometers of the Amur Highway built in the 1980s. The road, which connects Chita and Khabarovsk, received extensive publicity when Putin took a four-day road trip in a Lada Kalina along a new stretch of the highway in August.

Putin also said $1.67 billion would be spent building roads through 2012 in cities including regional capitals Yakutsk, Petropavlovsk, Vladivostok, Khabarovsk, Blagoveshchensk, Magadan, Yuzhno-Sakhalinsk, Birobidzhan and Anadyr.

Commerce is springing up along the highway, Putin said, urging regional leaders to ease the bureaucratic process to open new businesses.

"Sometimes those who start businesses don't have all the necessary papers and permits. I'm asking regional leaders to pay attention to this problem and help people. Not create impediments," he said.

A total of $800 million will be spent on the construction of the Vostochny cosmodrome over the next three years. Putin said work on the facility in the Amur region would begin next year, while the first launch pad would be ready within five years. Russia now relies on the Soviet-era Baikonur cosmodrome in Kazakhstan for many of its space launches.

Putin also said a direct investment fund for regional projects was being set up with Vneshekonombank, the state development bank. In its first phase, the fund will have between 80 billion and 90 billion rubles to invest, he said.

Natalya Orlova, an analyst at Alfa Bank, said the plans would not generate much enthusiasm until it's clear how the money will be spent.

"Joint ventures will have a positive effect on the economy," Orlova said. "But if the government thinks up the projects, the funds will be used ineffectively."

She also said there was "a big risk" that the funds would be spent without taking economic realities into account.

VEB spokeswoman Yekaterina Karasina said a proposal for the fund was being drafted for submission to the bank's supervisory board, which Putin chairs.

Additionally, Putin said the Foreign Ministry would develop a three-day visa waiver for tourists in the Primorye region, noting the need to encourage ecotourism in particular. Tourists in St. Petersburg arriving on cruise ships already enjoy such a waiver.

Turning to energy, the prime minister said the government has approved subsidies for gas supplies delivered through the Sakhalin-Khabarovsk-Vladivostok pipeline. That move is intended to reduce the price of the gas to users, Putin said. Gas costs more in the Far East than in other parts of Russia.

Alternative sources of energy need to be developed, he said, although he also urged caution.

"Take the windmills that are very common in many European countries," Putin said. "It would seem that they are a really environmental form of energy, but it's not so. They kill birds, and there is so much vibration that worms crawl out of the ground, not to mention all sorts of moles."

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