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Railcar Venture Eyes Market for Freight

By Alexander Bratersky

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The railway industry is speeding up. IST Group wants to edge in on the freight railcar market with its Tikhvin plant. **Sergei Nikolayev**

TIKHVIN, Leningrad Region — In Soviet times this larger-than-life industrial plant in Tikhvin, a city near St. Petersburg, hummed with 20,000 employees and the manufacture of parts for giant tractors.

Those days are long gone. But the factory's walls now will house a new venture: Investment conglomerate IST Group will use the plant to make freight cars using systems from a U.S. supplier of freight car mechanics.

With the volume of rail freight increasing, some of the billionaires behind IST Group, Nomos Bank and potash miner Uralkali are plowing roughly $1.2 billion into the railcar project. In doing so they are bringing U.S. railcar mechanics and products to Russia — as well as capital investment and workers to Tikhvin.

The ancient city of about 60,000 residents, a three-hour drive from St. Petersburg, is famous

for its monastery, its nunnery and its birthplace museum for composer Nikolai Rimsky-Korsakov. In the eyes of IST managers, however, Tikhvin is about to rev up.

"From a small and quiet city, Tikhvin is turning into a stronghold of industrialization," Viktor Tikhonov, head of Tetran-Express, an IST Group-controlled manufacturer of tank treads, told The Moscow Times.

This isn't the first major railroad enterprise to land in the factory. In the mid-1990s, it was a production site for the Sokol train, part of the VSM high-speed rail project planned by President Boris Yeltsin's officials.

They wanted to use the Sokol train in a grandiose plan to link Moscow and St. Petersburg by rail. Though more than $30 million was spent on the train project, the plans weren't realized. Only one train was made — and it was given to a railroad institute for teaching student engineers.

Tikhonov was at the factory for the Sokol venture. "If this project had reached its logical conclusion, the country would be riding on our trains," he said. IST Group bought the plant from VSM, the would-be Sokol train producer, in 2001.

Today's railcar program is operating in a market ripe for sales. The volume of freight on the country's railways has been growing: It rose about 10 percent in January of this year compared with January 2010 figures, and those showed an increase of about 17 percent from January 2009, Interfax reported.

More than 96 million tons of freight were shipped by rail this January, the news service said.

Behind the Tikhvin industrial revamp is billionaire Alexander Nesis, co-owner of IST Group. IST bought a 13.2 percent stake in chemical powerhouse Uralkali last summer, and Nesis also controls Nomos Bank. As of March, his fortune was estimated at $2.5 billion by Forbes magazine.

In December, Nesis told Bloomberg News that IST Group would invest $1 billion in the Tikhvin rail project.

"We reckon upon a simple thing," he told Bloomberg News. "Russia has one of the largest railcar fleets in the world, and the majority of these are old and need to be replaced soon."

The Tikhvin factory will make freight cars using mechanical systems from Standard Car Truck Company, a maker of freight car systems based outside Chicago. SCT, part of Pittsburgh-area Wabtec Corporation, sells to North American railway majors such as CSX and Union Pacific, according to the SCT web site.

In March, the Tikhvin factory announced that it had received Russian federal certification to use SCT's Barber S-2-R system for cars to transport mineral fertilizers. The Barber S-2-R is considered the basis for the "new generation of train cars" planned by the factory.

The railcar project at the Tikhvin Freight Car Building Plant is aimed at making freight cars that can replace the aging Soviet-made railcars.

The plant — which will have capacity for making 13,000 railcars and 65,000 wheelsets annually — will begin operations this year, IST spokesman Vasily Somov told The Moscow Times. The company will work according to the railcar production standards used by companies such as Wabtec, Siemens and Alstom that had been unavailable in Russia, Somov added.

The company has already signed an agreement with Freight One, a major freight operator. In February, Freight One purchased six freight cars for transporting minerals.

With the overall market of rail transportation up 8 percent in 2010 compared with last year, according to Russian railway leasing firm Brunswick Rail, new freight cars will be in high demand. "The features make them more attractive than the cars made during the Soviet times, and sooner or later [the railroads] will replace them," Freight One deputy director Sergei Kaletin told reporters.

For now, the Tikhvin factory has only one domestic competitor, the Uralvagonzavod plant that specializes mostly in making tanks. That company, however, is interested in purchasing Barber railcars, according to Somov. Another potential buyer is Slovakian company Tatravagonka.

In Tikhvin, relations between IST Group and locals got off to a rocky start. IST used to own a chrome iron plant in Tikhvin, and that plant was the object of protests by locals over ecological concerns. It became a source of bad public relations for IST. The group sold the plant, however, before the financial crisis to the Mechel mining concern.

IST Group also won support from locals after three of its owners — Nesis, Nikolai Dobrinov and Alexei Gudaitis — injected millions of dollars into the local budget by registering as residents of Tikhvin. They paid more than 3 billion rubles ($106 million) in federal taxes, and as a result the city received more than 1.7 billion rubles for its annual budget over three years. That money went toward items such as infrastructure, schools and repair of a local hospital.

In an interview last year with Forbes magazine, co-owner Dobrinov called the decision to register in Tikhvin "principal."

"We did it because we wanted to do business in the city," he said.

In addition to its capital infusion for Tikhvin, IST Group has been using Soviet-style approaches to attract workers and support.

The plant management announced a program to bring in qualified workers from throughout Russia's regions. Company managers told The Moscow Times that they would need 3,500 workers for the plant, and part of the work force will be local. Finding people suited for the job is difficult, since many of the experienced workers have already retired and some left to work for small businesses in the area.

In addition, IST is building several apartment complexes with more than 2,000 apartments for the future workers. They will be able to finance the apartment purchase with a 30-year mortgage with a 10.5 percent interest rate, the company said. Some of the employees are

coming from as far away as Tolyatti, the manufacturing center of carmaker AvtoVAZ.

Tikhvin locals said they hope that the plant will improve life in their city. Though a relatively small place, it already is home to businesses belonging to IKEA and several other companies. But unemployment in Tikhvin, like in many former industrial regions, is high. Many locals have been heading to St. Petersburg to find jobs.

Some are sticking around for opportunities at the new plant, however. Alexander Brukhov worked as an engineer at a factory in Pikalyovo, an industrial city an hour's drive from Tikhvin.

"When I heard about the construction of the plant, I decided to come to try my luck," said Brukhov, who was hired as a personnel director at the plant. "Back home the salaries would get delayed, and we were working for an idea alone."

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