

No Cherries but Plenty of Challenges for Railways Chief

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Yakunin watching a train exit a tunnel Friday at the opening ceremony of a reconstructed railway tunnel in Novorossiisk. Putin also attended the event. **Alexei Druzhinin**

SOCHI — Vladimir Yakunin seemed irked.

"No cherries, no tea?" he said. "Honestly, I can't work like this."

But Yakunin, president of Russian Railways, wasn't really upset. It had just been a long day, he said, sending an aide off to find the tea at the start of an interview with The Moscow Times.

It would be hard for Yakunin to be genuinely distressed about such a minor inconvenience. The former diplomat is widely believed to have worked for the KGB in foreign intelligence — a profession that promotes restraint, even in the absence of cherries.

His possible spy links are believable in conversation, when it becomes apparent that his portly figure and bear-like demeanor mask a sharp mind and a disarming ability to slip effortlessly

between Russian and English during discussions with foreign colleagues.

The weather in Sochi, where he presided over an annual international rail business conference last week, was perfect. The scenery was stunning, and the event, however much it purported to be a working summit, carried the feel of a vacation.

Although the atmosphere was relaxing, there was a reason to bring luminaries of the international rail business, potential investors and government officials from Moscow to the Black Sea resort: the not-so-subtle need to promote the massive work and challenges facing the rail monopoly.

Sochi is the site of several of Russian Railways' most high-profile — and controversial — construction projects ahead of the 2014 Winter Olympics.

The company is building three new rail lines, including a contentious road and rail link to the Alpika mountain resort in Krasnaya Polyana, a new freight yard, and four new rail terminals in Sochi and surrounding towns.

"I can say that all the Olympic projects we're responsible for are on schedule and going to plan. We've had no upsets," Yakunin said with evident satisfaction.

It's an opportunity to show fellow railway men, potential investors and, more important, those who control the purse strings in Moscow what can be done.

"All in all, there's a lot of events coming up that would be impossible without the railways," he said. "First there's the Universiade [in Kazan in 2013], then the Olympics in 2014, then the World Cup in 2018. Oh, and don't forget the hockey." Russia won its bid to host the 2016 Ice Hockey World Championships last month.

Those looming deadlines serve as an incentive to the company to get things done as quickly as possible, he said.

"But most important I hope it's a stimulus for our government," Yakunin said. "Because it's one thing to say, 'Here's the concept on the table: We need to develop transport links.' But it's another thing to give us the money."

And the upcoming sporting events are just the beginning. The company also plans to spend 13 trillion rubles (\$400 billion) on new rolling stock and lay more than 20,000 kilometers of track by 2030.

Great emphasis is being put on overcoming freight bottlenecks, especially on the Trans-Siberian and the Trans-Baikal railroads in the Far East, and extending lines to ports in the south and northwest.

Yakunin's latest plan is a vision to position Russia — and the 17 neighboring countries using its 1,520-millimeter gauge tracks — as a transit zone between Europe and the far eastern economies, which both use the narrower 1,435-mm gauge track.

"It's exactly the same problem at both ends, but it takes international cooperation," he said.

And he's in negotiations with French and German rail companies to launch a Moscow-Berlin-Paris express to complement the Moscow-Nice route opened last year.

Funding for these grand plans is something of a sore point, however. Yakunin reckons meeting the sporting events deadlines will take 750 billion rubles invested in infrastructure projects by 2015. But he's not in a position to put up this sum himself — largely, he says, because of the government's tight rein on freight tariffs.

'Heated' Tariff Talks

Talking to Yakunin about funding these projects gives an insight into the extent the economy remains heavily centralized. Russian Railways is still a purely state-owned company, and its primary sources of income are freight tariffs and state subsidies, meaning "heated discussions" with the Finance Ministry, as Yakunin described them, are a fact of life.

But its activities have such significance for the economy that even its own main source of income — freight tariffs — is subject to government control. Freight tariffs accounted for about 85 percent of nearly 1.1 trillion rubles of revenues in 2010, according to company figures.

The railway monopoly would like to increase tariffs to raise funds to invest in infrastructure projects and modern rolling stock. But the government, nervous about inflation and the impact on the industries that rely on rail freight, has kept tariffs on a tight lease.

"It is a question that lies beyond the competence of the company. These are questions of macroeconomics," Yakunin said. "There's a non-antagonistic conflict — by which I mean there's no clash — between keeping a grip on inflation and limiting state debt.

"But the government sets the objectives, and the government sets the tariffs. So we can assume that they will find the best decision," he added diplomatically.

Surprise Putin Visit

Shortly after the interview, Yakunin got an unexpected chance to put his arguments to the man who matters. Prime Minister Vladimir Putin, who had visited Abkhazia for the funeral of its leader, Sergei Bagapsh, dropped in unexpectedly at the end of the Rail Business Forum on Friday — causing organizers to extend events for an extra day and hurriedly put together a reception committee.

Yakunin is considered part of the prime minister's inner circle, with a friendship stretching back to at least the early 1990s. But it didn't look like Yakunin got much out of Putin, who restated his position on tariffs before Yakunin had a chance to open his mouth.

"We understand the industry needs resources for buying things. But we cannot raise tariffs too high — it's very dangerous for the economy as a whole and the customers," Putin said in a speech to a hastily assembled audience of rail executives, bankers and government officials.

Putin barely reacted when Yakunin called for liberalized tariffs on international transit on the grounds that the market was sufficiently "advanced."

But Yakunin got an immediate and sharp response when he asked for "market mechanisms" to address the "painful and sensitive" issue of providing services to small and medium-sized businesses left out by a system geared toward large customers like coal producers.

"You expect subsidies from us?" Putin interrupted.

"Manufacturers may need just one or 10 cars, and frankly they feel offended that the current system..." Yakunin replied.

"What do you want from the government? Money?" the prime minister said, cutting to the heart of the matter.

The honest answer would probably be "yes." Last June, the government extended a 50 billion ruble subsidy to compensate for the tariff controls, and the company is likely to seek further support in future.

Tariff controls are expected to contribute to a drastic fall in net profits. Although the company recently raised its profit forecast for 2011 from 2.7 billion rubles to 10 billion rubles thanks to high cargo loads, the new figure still represents a huge drop from more than 70 billion rubles last year.

"We all want to stimulate growth and keep tariffs down. But we also remember your words that railways need support," Yakunin told Putin, who also oversaw the opening of a rail tunnel in the Black Sea port of Novorossiisk on Friday.

State Within a State

If the external influence on the company irritates Yakunin, he doesn't let it show. And it might, because Yakunin effectively runs a state within a state.

He presides over one of the largest transportation systems in the world, with a charter capital estimated at 36.5 billion euros (\$53 billion) in 2010. He employs more than 1 million people. Last year's estimated turnover of \$38.7 billion equals the gross domestic product of Serbia.

It's a sprawling corporation that the government has put on its list to participate in a \$33 billion state privatization program.

An agreement has been reached to sell 5 percent to 20 percent of rail monopoly to a strategic investor after 2013, Yakunin said in the interview Wednesday.

But inevitably, he seems secure in the knowledge that the state needs Russian Railways as much as Russian Railways needs the state.

The company creates 1.9 percent of the country's GDP, possesses 7.3 percent of all state assets, and carries out 3.4 percent of infrastructure investment, Yakunin told Putin on Friday.

"Last year the government invested 176 billion rubles in our authorized capital, but received 245 billion back in taxes alone," he said.

"That's our macroeconomic impact. Without the railways, we cannot implement goals set

by the government like a double-digit increase in GDP," he said.

So the least you could do, he seemed to be saying, is provide a bit of money for tea and cherries.

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