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Coal Miners to Spend Big on Infrastructure

By The Moscow Times

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Russia has enough rail track to handle coal exports but lacks rolling stock. **Denis Grishkin**

Mining companies in Russia, the world's third-largest coal exporter, are likely to invest heavily in rail cars and port capacity to overcome bottlenecks as they seek to increase sales into booming Asian markets, industry players and analysts said.

Coal exports rose about 25 percent from 2006 to 115 million tons in 2010, including 70 million tons of thermal coal.

Consultants at IMC Montan expect five major new export-oriented projects to boost the total amount of coal railed for the domestic and export markets by a further 70 million tons by 2020.

Transport bottlenecks, which are becoming increasingly severe in the winter months, are expected to worsen once new mines open.

"Investment in infrastructure is not optional; it's absolutely essential. Maximum capacity has been reached for ports and particularly rail wagon availability," said an exporter looking to buy into infrastructure.

Russia has enough rail track to handle more coal exports but not enough rolling stock or ports in key locations, industry sources said.

"If the mining companies want to increase coal exports, they must invest in infrastructure — in more rail cars, perhaps in port capacity," said Vladimir Lelekov, managing partner and general manager of Brunswick Rail, which rents rail cars to most of the big exporters.

An estimated 50 million tons of oil and oil products are expected to move off the rail system and into pipelines within five years, but this will not benefit coal transport because oil is moved in tanker wagons, not open rail cars.

"The main problem with coal transportation in Russia is the lack of gondola cars. As fast as new wagons and locomotives are produced, they are fully utilized and more are needed. There is enough rail track in Russia but not enough rolling stock," Lelekov said.

"The situation is not uniform," he added. "There are some particular areas where there are bottlenecks that cause more delays than in other places, such as the rail line into the Vanino port, so investment is not needed in a wholesale way, but targeted."

The liberalization of Russia's state rail system may offer investment opportunities for mining companies, analysts and industry sources said.

State rail operator Russian Railways, or RZD, plans to sell majority stakes in subsidiary Freight One, which would privatize the allocation of RZD's rail cars.

The government may also sell 15 percent of RZD via an initial public offering by 2013.

Firms interested in bidding for the RZD subsidiaries include N-Trans, part of the Globaltrans group, and Gunvor, sources close to the companies said.

Other nations including Australia and the United States have had large-scale private investment in rail and port infrastructure in recent years as miners boost exports to emerging markets hungry for coal.

Wood Mackenzie analyst Steve Hulton said development of rail and port capacity in Australia's Queensland, led by the private sector, can serve as a model for other nations.

"Companies shouldn't wait for the government to build new infrastructure for them: ports, new coal terminals, iron ore terminals, railroads," Renaissance Capital analyst Boris Krasnozhenov said.

"They have money, they are generating strong margins, so they should finance this infrastructure from their own cash flows and own this infrastructure."

Krasnozhenov cited coking coal and steel producer Mechel's development of the Elga deposit in the Sakha republic as an example for others to follow.

"What Mechel is doing — that is exactly the way of Australian and Brazilian companies," he said.

Smaller producers such as Kuzbass Fuel Company, Russia's seventh-largest exporter, have also built their own rail lines.

"We built 70 kilometers of railroad ourselves, along with five railway stations, a depot for locomotives, locomotives and rail cars," KTK general director Igor Prokudin said at a Renaissance Capital investor conference in Moscow last month.

Public-private partnerships, or PPP, are another variation on the theme of increased corporate involvement in Russian infrastructure spending.

Severstal is developing coking coal deposits in the Tuva republic and will participate in a consortium with the government to build a rail line to export output from the remote region.

"The PPP is only being tested these days, but it is already clear that the future development of rail, road and other transport infrastructure shall extensively involve this mechanism," said Nikita Mishin, co-founder of N-Trans, one of Russia's biggest private transportation firms.

"In the port sector, private investors are already playing a significant role, contributing more than a half of all capital expenditure," he said.

"Investments by different market players clearly need to be coordinated so that new capacity being introduced on road, rail or port can be served, but this is well understood by all market players including the government," he added.

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