

Russian Railways and Government Play \$1.4Bln Game of Chicken Over Tariffs

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Russian Railways is set to reduce its planned investment spending by 41 billion rubles (\$1.4 billion) if the government decides to temper growth in transportation tariffs, a top executive at the state-run monopoly said Wednesday.

The rail monopoly proposed that the government raise rail freight rates by 7.4 percent next year, but the Economic Development Ministry is proposing to limit the hike to 6 percent, as a usual annual dilemma is playing out between state monopolies and their owner. State-run companies insist they need more profit to invest in development — and by extension provide a powerful boost to the rest of the economy by handing out contracts, while the government chases its ever-elusive goal of taming inflation by decreasing regulated prices.

For Russian Railways, the investment budget will contract from the currently planned 382 billion rubles if the Economic Development Ministry prevails, said Vadim Mikhailov, the company's senior vice president. The contraction will almost double if the government

opts for the 6 percent increase to apply from July instead of January, he said.

The fate of another 40 billion rubles, which Russian Railways asked the federal budget to earmark in direct subsidies, still hangs in the balance, he said.

Were these funds to evaporate, the company would have to cut staff, trim expenses on maintenance, and new and ongoing projects. With a million workers, it is the country's biggest employer and handles 85 percent of cargo that traverses Russia's expanses.

"We would have to cut spending to cover some of the shortfall and borrow more to cover the rest," Mikhailov said at a news conference.

The company is now planning to borrow 60 billion rubles domestically or internationally, he said. As proof that foreign lenders are an option, Mikhailov pointed to the successful placement of 20-year eurobonds worth 650 million (\$1 billion) pounds last year.

"It showed that investors trust us and are ready to finance projects that break even over up to 20 years," he said.

Mikhailov reiterated that Russian Railways also proposed that the government issue "infrastructure" bonds in favor of the company — contrary to the standard practice that governments issue bonds only to cover their budgetary deficits.

"It's not the form that's important, it's the content," Mikhailov said. "We want the government to take on some of the liabilities."

Sales of shares in subsidiaries will contribute 44 billion rubles to the company's investment budget next year — less than this year, Mikhailov said.

He said Russian Railways on Sept. 6 would announce the starting price and the other terms of the auction to sell control in its transportation subsidiary Freight One, an industry leader.

Russian Railways will also report its profit to international standards next week, Mikhailov said.

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