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Ports Not Competing Over New Railway Link

By Roland Oliphant

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Correction: An earlier version of this article misnamed the president of Russian Railways. His name is Vladimir Yakunin.

Alexander Goloviznin, deputy general director of the Ust Luga port in the Leningrad region, denied that there was a conflict of interests over the planned extension of a railway line to the rival port of Primorsk.

"What's economics? There is always a limited amount of resources, even if you are Russian Railways," Goloviznin told The Moscow Times.

It was reported Tuesday that 7.5 billion rubles ($250 million) of a 29 billion ruble support package that the Finance Ministry is extending to Russian Railways for infrastructure projects in 2012 will be earmarked for the extension of a rail link to Primorsk, which is largely an oil export point.

Most of the remainder is likely to be dedicated to ongoing construction projects in the Krasnodar region, ahead of the Sochi Winter Olympics in 2014, Kommersant reported.

The paper suggested that the money was earmarked for Primorsk because there was not enough available for a more expensive upgrade of existing rail links to Ust Luga.

But Investcafe analyst Dmitry Adamidov wrote that the decision was related to oil pipeline monopoly Transneft's government connections, rather than strategic economic interests of the country.

"This is a great illustration of the problems surrounding infrastructure projects, and not only those connected with railways," Adamidov wrote in a note to investors.

"Each investment project is arrived at by special decision. And the priority here is given not to the importance of the project, but the lobbying power of the applicant," he wrote.

But Goloviznin said only "normal economics, no shady politics," went into deciding how to allocate infrastructure projects.

Nor has Ust Luga any less clout. Russian Railways president Vladimir Yakunin was a former head of the project, and it has recently been endorsed by United Russia and backed by Prime Minister Vladimir Putin, Goloviznin said.

Transneft and its partner Summa, which co-own Primorsk, have been lobbying for a rail link to transport oil and related products for several years.

The new line should be able to deliver 20 million tons of oil a year to the port.

Logistics and shipping companies see infrastructure as the weak link in bringing goods into the country.

One British shipping executive welcomed diversification of ports on the Baltic, partly because of St. Petersburg's vulnerability to ice in the winter, but also because of heavy congestion and the port management's tendency to abuse its long-held monopoly.

But he said alternatives needed to suit importers before they will switch.

"We sail where our customers tell us to — it depends on the deal they have with their in-country logistics provider. But at the moment, lots of ports simply aren't ticking the boxes for them," said David Brooks of Mannlines, a British shipping company specializing in importing finished vehicles.

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