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INDEPENDENT NEWS FROM RUSSIA

Fierce Competition Expected for Freight One

By The Moscow Times

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The railway head sees only economic woes as an obstacle to the sale. **Andrei Makhonin**

Russian Railways' multibillion-dollar sale of its Freight One cargo company could be threatened by global economic problems if its prospective oligarch bidders feel the pinch, its chief executive said.

Russian Railways, the nation's biggest civil employer with a work force comparable to the size of the armed forces, plans to raise at least $3.8 billion by selling a stake of 75 percent minus two shares in Freight One at an auction Friday.

Steel magnate Vladimir Lisin and oil trader Gennady Timchenko are expected to bid for the company, which owns 21 percent of the country's rolling stock, and chief executive Vladimir Yakunin said the economic climate was now the only obstacle to a successful sale.

"The only concern I have [over the sale] is this fear that the world's economic and political leaders will not be able to find a reasonable solution to the economic and social situation in Europe and America," Yakunin said in an interview.

"If there is a second wave of the crisis, the recession will hit the entire global economy again. I suppose it could be much longer than the first wave," said Yakunin, a close ally of Prime Minister Vladimir Putin.

Asked whether this could affect the sale of Freight One, he said: "Of course. During the crisis, prices fell 50 percent. ... In these circumstances, how do you think the buyer would come up with the money to buy the rolling stock?"

Russian Railways, which has a vital role carrying freight and about 1.3 billion passengers a year across the world's largest country, generated revenue of nearly 1.33 trillion rubles ($38.6 billion) last year and accounts for about 2.5 percent of gross domestic product.

It employs more than 950,000 people, controls the world's second-biggest rail network after the United States and is often seen as a barometer of the Russian economy.

"There was a statement by the prime minister. He said once that if one wants to know what's going on in the Russian economy, just check the papers about cargo operations on the table of Russian Railways' president," Yakunin said.

He has overseen structural reforms at the company since he became chief executive in 2005, and announced the sale of Freight One under a plan to raise funds to invest in new infrastructure.

Competition could be fierce. Lisin, listed by Forbes magazine as Russia's richest man with a $24 billion fortune, is bidding for the company through his transport company Universal Cargo Logistics Holding.

He is expected to face a challenge from mining supply group Transoil controlled by Timchenko, long an associate of Putin. Bidding starts at just over 125 billion rubles.

Russian Railways raised $400 million from the initial public offering of cargo unit Transcontainer last November and has government permission to sell 50 percent plus two shares in the $1 billion-rated company in 2012 or 2013.

Other changes under Yakunin have been the introduction of high-speed trains between the capital Moscow and St. Petersburg, although other lines and trains remain in need of improvement.

This is becoming more important as Russia prepares to host the 2014 Winter Olympics and the 2018 World Cup soccer tournament.

"My task is to make the company more effective, more profitable and more respected," said Yakunin, who worked at the Soviet diplomatic mission to the United Nations from 1985 until 1991 before going into business.

The Russian rail network has come a long way since it was overseen by Bolshevik revolutionaries Leon Trotsky and Felix Dzerzhinsky, whose portraits hang with those of other former railway ministers in a corridor at the company's headquarters.

The government has announced plans to sell a 25 percent stake in Russian Railways under a privatization plan intended to raise up to $50 billion over five years. But those sums and the timeline are now in question after the departure of Finance Minister Alexei Kudrin, the plan's main architect.

Yakunin said Russian Railways should make up more of the ground it lost during the 2008-09 crisis before it presses ahead with privatization plans after 2013.

"I think that privatization, if it will be resolved by the government after 2013, should involve a small stake in Russian Railways," he said.

"That [the size] is for the government to decide. My position is that it should be a stake of no more than 20 percent or, better, 10 percent, to start with and then the government should look at it again."

Looking back to Soviet times, he said total state control of the economy had been a catastrophe. "But just to say that privatization is the only thing needed to make the economy glorious — this is a funny story to me," he said.

Problems for Russian Railways in recent weeks have included a shortage of rail cars for shipping coal and congestion on the route to the Black Sea ports used to export shipments such as grain.

Putin ordered Yakunin out of a meeting this month to go to Siberia to sort out delivery problems and said he should not wait to be told to act the next time.

"The situation is under control," Yakunin said.

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