

Russian Railways' Family Connections

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July 29, 2012



RZD security guards standing watch outside the Yaroslavsky Station and facing Kazansky Station. To the right is the looming Hilton Leningradskaya hotel. **Vladimir Filonov**

To get an idea of how parts of Russia's economy still resemble the Soviet Union, take a look at Russian Railways.

With 85,000 kilometers of track, 1 million employees and turnover of \$40 billion a year, the state-run company remains a heavyweight symbol of the old command economy.

Now, President Vladimir Putin's government has ordered the privatization of a one-quarter stake in the company by the end of 2013.

That's starting to open up Russian Railways' management and strategy to closer scrutiny — some of it unwelcome.

A Reuters investigation has identified business ties between the son of Russian Railways president Vladimir Yakunin and firms and businessmen linked to the railways giant.

Andrei Yakunin, 37, a London-based investor, is pursuing a \$500 million plan to build hotels across Russia, partly with the help of a subsidiary of the company run by his father.

He also shared offices until recently with a private venture aiming to ship millions of tons of freight between Asia and Europe by Russian rail rather than by traditional sea routes.

While Andrei Yakunin is open about his business ties to Russian Railways — and there is no suggestion of any illegality in those links — the state rail monopoly has made only scant disclosures in filings to investors.

In a statement to Reuters, Vladimir Yakunin denied any ties at all.

"It's a huge cultural problem," said Yelena Panfilova, head of the Russian chapter of anti-corruption watchdog Transparency International. "The core management of Russian Railways comes from a past where it was not the norm to disclose any information, even if it's public and even if it doesn't hurt their operations. It would be much better to explain and show how these connections go."

Andrei Yakunin denies that any conflicts arise through his dealings with companies linked to the state railways.

But in an interview, he said he understood concerns over whether he might have gained an advantage from his father's position.

Asked whether his partnership with the real estate arm of Russian Railways might raise questions of disclosure for the state rail monopoly, he said: "I agree, but I'm not getting money from them. I'm paying them."

Nor was buying land from a subsidiary of Russian Railways any gold mine because of his father's position, he said.

Though he originally thought he had "direct access to the second-largest landowner in the country," Andrei Yakunin said that thanks to the complexities of land ownership in Russia, his connections were "no fast track to heaven."

The elder Yakunin, 64, declined to be interviewed for this article. In the statement, the firm said there are no business links between Russian Railways, which is also known as RZD, and Andrei.

"Concerning any financial interests on the part of RZD and its president in the companies you name, they do not exist," the statement said.

The statement declined to comment on individuals who do business with Andrei Yakunin and also have roles at companies either controlled by or linked to Russian Railways.

The Railway Baron

In the system of Kremlin capitalism built by Putin since he first became president 12 years ago, Vladimir Yakunin is a quintessential insider.

The son of a military pilot, he was brought up in Estonia, studied in St. Petersburg and later flourished thanks to relationships he built both before and after the Soviet collapse in 1991.

Around the same time that Putin returned from his posting overseas as a KGB agent to start a political career in his native St. Petersburg, Yakunin also arrived there, having left the Soviet mission to the United Nations in Vienna to go into business in Russia's second city. The two men soon got to know each other.

On Putin's rise to the presidency in 2000, Yakunin entered the federal government and emerged in 2005, after a power struggle, as head of Russian Railways, which in many ways is the blood supply of the world's largest country.

"Mr. Putin once said that if you want to know the status of the Russian economy, you should look at the papers of the president of Russian Railways with the daily reports of the amount of cargo, the directions of delivery and amount of passengers." Yakunin told the Daily Telegraph on a visit to London this year to market a bond offering by the railroad.

The year after Yakunin became Russia's train-driver-in-chief, his son founded a real estate investment fund, based in London, with an Israeli-born investor named Yair Ziv.

The firm began to develop plans for a chain of hotels aimed at business customers traveling across Russia, concentrating on major regional centers from Krasnodar to Khabarovsk.

In 2009, Andrei Yakunin struck a landmark deal with Rezidor, a company listed on the Stockholm stock exchange that has long experience operating hotels.

Andrei Yakunin's company, Regional Hotel Chain, would acquire and develop the sites, and Rezidor would manage the hotels. Together they set about planning 20 hotels with, as Andrei said in an e-mail, a "fast and massive nationwide roll-out" in mind.

Andrei Yakunin said the first three hotels in operation — in Kazan, Astrakhan and Izhevsk — have nothing to do with RZD.

But plans for at least five other sites are next to or very near key rail stations, according to Rezidor.

To acquire suitable plots, Andrei Yakunin said, his firm conducted a "rigorous selection process" to find a property consultant in Russia.

It settled on Zheldoripoteka, a subsidiary of Russian Railways. Zheldoripoteka has since helped Regional Hotel Chain to secure hotel sites, Andrei Yakunin said.

"We were able to locate a few land plots, which we did eventually acquire through Zheldoripoteka," he said. They are next to or close to stations in key cities.

But he added that the relationship has not made it any easier for him to acquire land in a country where red tape and corruption make completing deals a challenge.

"Without disrespect, the way they have built the process in the company for selling off something from the company's assets is painful," he said.

What's in a Name?

Andrei Yakunin is not averse to playing up family associations as he seeks investors for his ambitious hotel plan.

"Yakunin is a brand of a sort," he said in an interview at the trendy Blackberry Cafe in central Moscow.

The eagle-eyed might notice that the initials of his private equity and real estate fund, Venture Investment & Yield Management, are strikingly similar to those of his father, Vladimir Ivanovich Yakunin.

They might notice, too, that VIYM's St. Petersburg office is headed by Andrei's younger brother, Viktor, who has worked for Gunvor, an oil trading firm run by billionaire Gennady Timchenko, who also got to know Putin well in St. Petersburg in the 1990s.

But Andrei Yakunin, a fluent English speaker whose string of qualifications includes an executive MBA from London Business School, said he avoids potential conflicts of interest.

"I have to be very careful about industries that maybe I find interesting, but I just stay away from ... because I don't want to create any trouble," he said.

He said he had turned down an opportunity to tender for fast-food concessions at train stations, adding with a laugh, "I'm still crying over it."

His father, a champion of conservative moral and religious causes, flatly denies any personal link to his son's company, saying in a statement that its initials "bear no meaning besides the creation of an abbreviation."

"All attempts to extrapolate from this coincidence any kind of affiliation with the head of Russian Railways amount to fiction," added the statement issued by his office in response to questions submitted by Reuters.

Arild Hovland, Rezidor's Russia country manager, said the Swedish hotel operator had a relationship with Andrei Yakunin before partnering with Regional Hotel Chain and had accepted assurances that he had no business link with his father or Russian Railways.

"Of course we looked at the background of Andrei Yakunin, and sure, we are aware of his father as the top official in Russian Railways," Hovland said. "However, they assured us that there is a firewall between the investment company that is owning the Regional Hotel Chain and Russian Railways."

Russian Railways has felt no need to detail Andrei Yakunin's relationship with a subsidiary of the company headed by his father.

Regional Hotel Chain's partnership with Zheldoripoteka was not made clear in any of the prospectuses for billions of dollars in bonds recently issued by the state rail company.

Shared Office

Hotels are not the only connection between Russian Railways and Venture Investment & Yield Management.

The premises on the 16th floor of the Marble Arch Tower in London's West End were also home, until early July, to another occupant looking to ride the footplate of Russia's rail opportunities: Far East Land Bridge.

Far East Land Bridge is a freight-forwarding company that joined with a subsidiary of Russian Railways named Transcontainer to offer rail freight transport between Europe and Asia, a potentially lucrative market.

While the overland route from China to Europe through Russia is relatively direct, freight sent by ship must travel via the Indian Ocean and Suez Canal. At 18 to 24 days, the land bridge takes roughly half the time of seaborne shipments.

Among the other advantages that Far East Land Bridge claims are lower costs per ton and more flexibility in changing final destinations during transport.

The company, which this month moved its headquarters to Vienna, is controlled through a nominee-based structure originating in Cyprus.

There it uses the same company secretary and the same office address in Nicosia as a number of VIYM-related entities, documents show.

Cyprus is a popular offshore venue for Russian businesses because it does not require companies to disclose their beneficial owners.

One of Far East Land Bridge's websites is registered in the name of Yair Ziv, Andrei Yakunin's partner, according to a web registry.

Ziv declined to comment in response to e-mailed questions regarding VIYM and Far East Land Bridge. And Andrei Yakunin said he was "not involved at all" in Far East Land Bridge.

"Yair does a lot of things in his own right, and if I know about 5 percent of what he's doing, maybe I'm flattering myself," he said.

But Vladimir Yakunin's statement that neither he nor Russian Railways had a financial interest in Far East Land Bridge is contradicted by statements and filings made by Transcontainer.

London-listed Transcontainer recently sold its stake in Far East Land Bridge to RZD Logistika, which was set up in 2010 and is 100 percent owned by Russian Railways.

RZD Logistika announced on June 29 that it had completed the purchase of a 10 percent stake in Far East Land Bridge and intended to raise it to 25 percent.

Andrei Zhemchugov, a spokesman for Transcontainer, described the Far East Land Bridge equity and debt transfer as an "intraholding optimization" within the Russian Railways

group.

In a recent filing, Transcontainer said Far East Land Bridge is "in fact controlled by the RZD group."

How such joint ventures between RZD and private firms will be affected by the partial privatization of the state company has yet to become clear.

The potential risks and rewards on all sides are high. Vladimir Yakunin estimates a 25 percent holding in RZD to be worth \$8 billion, but government officials reckon it is nearly three times higher.

Yakunin argues that it makes "no sense" to sell a stake in Russian Railways as a whole and that it would be better to continue his strategy of spinning off and selling operating units.

But Prime Minister Dmitry Medvedev recently accelerated the privatization plans, with the stake in Russian Railways to be sold by the end of next year.

Original url:

<https://www.themoscowtimes.com/2012/07/29/russian-railways-family-connections-a16585>