

Billionaires Wince at Olympic Costs

By [The Moscow Times](#)

February 21, 2013



An overview of Rosa Khutor, where Vladimir Potanin is bankrolling hotels and chalets as well as the ski slopes. **Kai Pfaffenbach**

SOCHI — Above the Black Sea city of Sochi, metals magnate Vladimir Potanin is spending billions of rubles to turn a patch of mountainside into a global showpiece.

Potanin has paid for new buildings, new lifts and hundreds of snow canons in the hope of transforming slopes not far from sub-tropical Sochi into a world-class ski resort.

Like most of the plans to host the Winter Olympic Games next year, Russia's ambitions for the ski village and other venues are outsized in scale and ambition. Total investment to make the sleepy region fit to welcome thousands of competitors and the world's media is expected to exceed \$50 billion.

That would make it the most expensive games, summer or winter, ever staged. The 2010 Winter Olympics in Vancouver, Canada, cost a mere \$3.6 billion, according to an estimate by PricewaterhouseCoopers, though others put the bill closer to \$6 billion.

While President Vladimir Putin has not flinched at Sochi's eye-popping expense, some private investors and billionaires, recruited by Putin to help foot the bill, are chafing at how much they are expected to do. In a rare challenge to the Kremlin, they are demanding that the state help with the rising costs.

Though precise figures on who is paying for what in Sochi are hard to obtain, RIA-Novosti reported that private investors have spent nearly \$25 billion. Federal and regional budgets have accounted for some \$13 billion of the costs incurred to date, Deputy Prime Minister Dmitry Kozak stated.

Potanin, who has a fortune of \$14.5 billion, according to Forbes, is complaining of at least \$530 million of extra work his company was required to do.

Now he wants the government to boost its contribution to his projects by cutting interest rates on his debt, which includes money borrowed through a line of credit with state bank Vneshekonombank of up to \$750 million. "We are carrying out talks with the government on the compensation of a part of these expenditures through interest rate subsidies," he said in an interview. "Many see this as a form of government support. But actually it is only compensation for expenditures, which are not characteristic of ... commercial projects."

Oleg Deripaska, another billionaire, has voiced similar complaints.

"The bargaining power is with the oligarchs until 2014, because they can come to the state for money or threaten that the construction won't get done in time," said Bruce Bower, a partner at the investment firm Verno Capital, who has lived in Russia since 2005.

Putin may hope to recoup a return on the investment later. Whether the billionaires will as well is far from clear.

"All [rises in costs] there are justified," said Putin's spokesman, Dmitry Peskov. "It is not possible to calculate everything in advance. New demands arise, including those from the International Olympic Committee, which require additional costs. There's nothing extraordinary about it.

"Regarding possible disputes [between investors and developers], they are inevitable when large-scale projects like this one are being developed."

Sochi's 'Social Projects'

Many of the biggest ventures were split up between billionaires, most of whom, like Potanin and Deripaska, are close to Putin.

"It wasn't a question of either of them making business decisions to join in with Olympics preparation. They were essentially told it would be a good idea for them to help out," said one contractor.

Another source, who bid for a contract in Sochi but was eliminated on a technicality, said the Kremlin had suggested its continued support for their business ventures depended on billionaires getting involved.

Deripaska's construction firm Basic Element declined to comment on whether his participation in the Olympics was a result of political pressure.

Potanin has said the idea was born after he skied with Putin. But in an interview on Ren-TV, he said his participation in the games was altruistic. "I look at this project like a regular social project coming from a person who has the ability to realize such a project for the country," he said. In Sochi, Potanin's projects include hotels and chalets as well as the ski slopes at the resort of Rosa Khutor in the nearby mountains.

Another investor is Arkady Rotenburg, a construction billionaire who in his youth was a judo sparring partner of Putin. Stroigazmontazh, the pipeline company that he owns, has built a 177-kilometer on- and off-shore gas pipeline around Sochi.

Rotenburg also has a stake in Russia's largest bridge builder, Mostotrest, through investment vehicle Marco Polo Investments, where he is a main shareholder. Mostotrest is carrying out extensive work in Sochi, including road construction.

Deripaska's projects include the \$760 million Olympic Village, which will host 3,000 people in 47 buildings, and a 42-kilometer road around the venues. He is also spending nearly \$300 million to expand the Sochi International Airport, according to his website.

Loyal Showing

In general, the super-rich dare not defy Putin, said Maria Lipman, an analyst at Carnegie Moscow Center. "They may be more demanding behind the scenes, but for now the show of loyalty is all part of the informal deals that Russia is based on," she said.

But there can be occasional discord. The soaring costs of Olympic projects have driven officials at Deripaska's company Transstroi to pursue an arbitration battle with Olympstroi, the state-owned company coordinating construction of the venues. Transstroi says costs crept up after it had taken on the project.

"At the beginning of the project a number of errors and inaccuracies were allowed, which had to be worked out during construction," the company said in a statement.

Deripaska, whose wealth is estimated at \$8.8 billion, wants to recover \$50 million of unexpected costs, according to court documents. "We want to work out officially in the courts the difference between the volume of work in the initial project phase, which was put up for bidding, and the project that was changed by the customer during the process of construction," the company said.

At the same time Olympstroi has filed a lawsuit against Transstroi, claiming, investigators stated, Kommersant reported, that Deripaska's company broke a contract by using cheap filling material to support the ground under construction sites. "We believe that the criminal case opened by Olympstroi is only the result of a misunderstanding, nothing more," said Transstroi spokeswoman Yelena Guryanova.

Contractors say cost overruns are often caused by the byzantine structure of deals. By employing large numbers of sub-contractors the risk of hidden or inflated expenses goes

up. On a visit to Sochi earlier this month, Putin said corruption pushes up prices, though he did not point the finger at any particular group. "The main thing is that no one steals anything, so there are no unexplained increases in costs," he told Russian news agencies.

A spokeswoman for Deripaska's Transstroï said his companies were not aware of any corruption in their construction projects. A spokeswoman for Deripaska himself declined to answer questions.

Potanin did comment, but said in his interview on Ren-TV that he had been dealt with fairly and that corruption was not an issue.

"We are not running into those kinds of problems in construction of our resort Rosa Khutor," he said.

Some Sochi contractors take a similar view to Putin on the damaging effect of corruption. One contractor said inflated price tags are sometimes caused by kickbacks and can often lead to shoddy building jobs.

The government says Olympic preparations are on time for the opening of the games on Feb. 7, 2014.

But locals complain of power cuts, and building is still under way at many of the Olympic venues. Numerous hotels have yet to be finished along the city's coastline, where 75,000 guests are expected.

Though Putin declared during a visit to Sochi this month that the Olympic facilities would be ready on time, he also dismissed the vice president of Russia's Olympic committee, Akhmed Bilalov, after learning that the ski-jumping venue was behind schedule and over-budget.

Bilalov declined to be interviewed.

Nor has everything gone smoothly for Olympstroï, which has had four chiefs since it was created in 2007.

After the Games

Potanin said in an interview last year that he wanted to sell the hotels he was building before the games to maximize his return, but felt pressure to hold onto them until later without specifying where that pressure came from. "It is understandable that they will be in demand during the Olympics, but after that everything will diminish in about three to four years," he said.

Potanin is likely to continue running the Rosa Khutor ski resort after the Olympics. The resort said it received 40,000 visitors in the 2010-11 season, and more than 100,000 in 2011-12. Its daily capacity is expected to rise to 10,500 visitors by the Olympics from a current 6,000, but a spokeswoman for the company said there were no available forecasts of likely future numbers.

Some of Deripaska's investments may also struggle to generate revenue after the games. The Sochi airport and other airports in the region may deliver him profits, said Takouhi

Tchertchian, who runs a \$110 million Russian infrastructure fund for Renaissance Asset Managers. But his plans to invest \$50 million to \$100 million to turn a major new port near Sochi into a marina are less certain to make money.

Many believe that rich Russians are unlikely to frequent the resort after the Olympics, preferring instead to go to more cosmopolitan and sophisticated European capitals, the Alps or the Mediterranean.

Locals in Sochi say that chemicals used in Olympic construction have polluted the water and damaged the prospect of the city turning into a major tourist destination any time soon. A spokeswoman for Deripaska's Transstroi said the beaches are still popular among residents, and that tourists are not being discouraged by environmental damage.

But some visitors disagree.

"You don't want to swim in the water here. It's not safe," said Luisa Kamcharova, a tourist from Moscow visiting Sochi recently. "Even the locals have stopped swimming here."

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