

Officials See \$7Bln Price Tag for Post-Olympic Sochi Maintenance

By [The Moscow Times](#)

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A girl waving in front of Sochi's Bolshoi Ice Dome. Vladimir Putin said Sochi should not expect more investment. **Issei Kato**

The record cost of President Vladimir Putin's Winter Olympics will keep climbing long after the athletes have gone home and the flame goes out in Sochi.

Russia, which is already spending 1.53 trillion rubles (\$44 billion) to host its first Winter Games, may have to spend as much as \$7 billion more in the next three years just to maintain the venues and other new infrastructure around Sochi, two officials involved in the planning said. That is about what Canada spent in total on the Vancouver Olympics in 2010.

Nobody knows what the final tally will be because the government has not decided exactly what to do with the venues yet, the officials said, asking not to be identified because budget talks are confidential. What is clear is that in the rush to get Sochi ready, the post-Olympic plans were not thought through. As a result, annual spending will be tens of times higher than

estimated, widening budget deficits, they said.

"Post-Games use options must be factored into the Olympic organizers' planning very early on," said Costas Mitropoulos, a former head of the Greek fund that oversees venue sales from the Athens Games. "The issue is not the maintenance cost but the waste of capital resources," Mitropoulos, now an executive director at PwC in Athens, said by e-mail.

Greece, which spent a then-record 8.5 billion euros (\$11.6 billion) to host the 2004 Summer Olympics, is still struggling to develop Hellenikon, the former airport where several venues were built. Twice the size of New York's Central Park, the site is now Europe's largest unused tract of urban real estate and a symbol of a country trying to recover from a six-year-long recession.

You're On Your Own

President Putin, who personally oversaw Sochi's transformation from a sleepy Soviet backwater on the Black Sea into a glimmering tourist and sporting attraction, told some of the area's 400,000 residents this week that they should not rely on federal funding for further development.

"Additional investment cannot really be expected after the enormous resources invested here," Putin said at a meeting with Sochi citizens on Feb. 10. "For all the love for Sochi, it now must be developed through very different means."

Even so, the government will continue to pay to maintain the new infrastructure and refit some of the venues through at least 2016 in an effort to avoid the problems experienced by Athens and other host cities, the two officials said. Estimates range from 60 billion rubles to 80 billion rubles a year, or as much as 34 times the amount currently budgeted, they said.

The government is still figuring out which buildings belong to the state and which to businesses, Interfax reported Feb. 10. Finance Minister Anton Siluanov said some will become profitable, while others will remain dependent on the budget, according to the news service.

Russia's three-year budget puts spending at 14 trillion rubles in 2014, including 2.3 billion rubles for Olympic projects — barely enough to cover the utility bills, according to the Construction Ministry. The deficit is forecast to reach 390 billion rubles in 2014, or 0.5 percent of gross domestic product, without including Olympic outlays that are being debated.

Since Putin came to power in 2000, the government has run a deficit three times — during the global financial crisis in 2009 and in 2010, as well as last year, the busiest for Olympic construction.

Luring Tourists

With the additional spending, the 2014 deficit will still be less than 1 percent of GDP, according to a Bloomberg survey of 21 economists, and remain the second-lowest ratio among Group of Eight nations, following Germany. Standard & Poor's, Fitch Ratings and Moody's Investors Service have all said Russia's Olympic spending is unlikely to damage

its sovereign credit rating. S&P's ranks Russia at BBB, its second-lowest investment grade, as does Fitch, while Moody's puts the country one level higher.

While Putin and other senior officials are betting the investments by state and private companies in Sochi will lure enough tourists to make the expense worth it, previous Olympics show such goals are rarely met, according to Standard & Poor's.

Over the past 50 or 60 years, only a few cities, including Los Angeles in 1984 and Barcelona in 1992, have seen their economies and finances improve as a result of hosting the Olympics, Karen Vartapetov, associate director of S&P's Moscow office, said by e-mail on Feb. 12.

"Payback of such events can be expected only over a very long-term horizon," Vartapetov said.

For billionaire Vladimir Potanin, who oversaw the construction of the \$2.5 billion Krasnaya Polyana ski complex, creating Russia's first world-class ski resort, which has 16 lifts and 77 kilometers of slopes, it is worth waiting years for a return on his investment.

"We took a piece of the Alps and brought it back to the Caucasus," Potanin, the chief executive officer and biggest shareholder Norilsk Nickel, Russia's largest mining company, said in an interview in Moscow in December.

State development lender Vneshekonombank, or VEB, in December extended the grace period for 241 billion rubles of loans for 20 Olympic projects by two years, to the end of 2015. The biggest credit, 73 billion rubles, went to Potanin's development company.

Since 2007, when Sochi was awarded the Games, Russian companies have built 14 sports venues, including the main stadium, which can seat 40,000 people, and more than 19,000 hotel rooms, according to the Construction Ministry. Builders laid 260 kilometers of roads, 200 kilometers of railroad, 54 bridges and 22 tunnels, while overhauling and expanding the local electricity network, sewage system, port and airport.

"There is a lot of separate work that needs to be done to solve post-Olympic problems," said Yelena Anikina, a lead negotiator with the International Olympic Committee during the bidding process.

Two hockey stadiums, for example, are scheduled to be converted into sports centers for kids to train year-round and the main media center, which covers an area seven times larger than Moscow's Red Square, is slated to become a shopping and entertainment complex. How these revamps will be funded, though, has yet to be determined.

Putin's Vision

For Putin, the transformation of Sochi, where he spends much of the summer, is not just about the Olympics and showcasing Russia's achievements. It is part of a wider push to boost the economy of the whole North Caucasus region, one of the poorest and most violent in Europe. To ensure a steady flow of tourist revenue, he has lined up a string of events that will keep the sparkling new Sochi in the spotlight.

In June, Sochi will host this year's G8 summit, which U.S. President Barack Obama and other

world leaders are scheduled to attend, followed four months later by the country's first Formula 1 Grand Prix in more than a century. Sochi is also one of 11 Russian cities where soccer games will be played during the 2018 World Cup.

Putin's point man for the Sochi Games, Deputy Prime Minister Dmitry Kozak, said he is "absolutely" sure that eventually the improved infrastructure in the region will foster business development and boost budget revenue enough to cover the maintenance costs of Olympic infrastructure.

"All the investments should pay off," Kozak said in an interview in Moscow in December.

In explaining his vision for Sochi, Putin said the city should vie for tourists with Turkey, which received a record 4 million Russian visitors in 2013, as a year-round travel destination. He said the sweat and money spent on the region's renewal should be enjoyed by ordinary Russians, as was the case during the Soviet era, not just the elite.

For that reason, Putin said he rejected a proposal that would have generated the most income in the shortest time — legalized gambling. Putin outlawed casinos in all but four special zones scattered across the country in 2006, as part of an anti-vice campaign that included measures to curtail smoking and underage drinking. Sochi, the president told its residents, should remain a family resort.

"This is not for a small group of select citizens who can spend hundreds of thousands of dollars in casinos," Putin said. "This is, frankly speaking, for the general public."

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