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Investors Call For City Hall To Share Financial Risks In Metro Cars Tender

By Alexander Panin

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A prototype for a Moscow metro wagon.

A 500 billion ruble ($13.7 billion) tender to supply and service 2,800 metro cars will be announced in the coming months, authorities said Wednesday, though possible participants have expressed concerns about the risks of the lengthy, ruble-based project.

Discussed in detail at the Russian Public Private Partnership Week conference in Moscow, the tender will be offered by the Moscow transportation department and the Moscow metro at the end of April or beginning of May and be divided into two parts of 1,400 cars each. The offer envisages the supply of metro trains hitting the rails from 2016 through 2023, with the supplier also contracted to service the trains over 30 years.

"At the tender, we would like to see consortiums made of producers and financial institutions, united bidders that will guarantee both the supply of trains and their financing," said Gamid Bulatov, deputy head of Moscow's transportation department.

The winning bidders will have two years to design, build and certify the rolling stock, he said, adding that eight main Russian and foreign metro car producers, including Transmashholding, Siemens, Bombardier, Hyundai and CAF have expressed interest in the tender.

While the order to supply an unprecedented number of trains has drawn much attention from both bankers and manufacturers, high financial risks behind the tender are causing concern.

The city will pay for the trains over a period of 15 years with an interest rate of 8.25 percent of the price per year. "This rate was derived from the average annual loan rate for the city, which is 8 percent," Bulatov said.

"There are not very many banks that can hedge out the risks for such a long period of payments," said Yury Osintsev, vice president of Sinara Group, a Russian investment company that in 2013 established a joint-venture with the Spanish company CAF to produce metro trains.

"There is a big problem determining the end price of the train because a lot will depend on the source of financing," Osintsev said.Possible tender participants are also concerned about the project's fixed pay-out rate, which is set in rubles.

"Regarding a potential international supplier, it is unclear for the financial institutions how the risks related to the currency will be handled," Stanislav Pozharnov, the head of state and municipal projects and programs division at Sberbank said. Pozharnov said that one way out would be to set a floating rate or conclude the deal in dollars or another currency.

The tender also requires the winner to eventually set up at least partial production of the trains locally. City authorities are currently examining possible manufacturing sites on territories annexed to Moscow in 2012, though manufacturers say that currency issues could interfere with production plans as well, or at least their initial stages.

"We all want to localize as much as possible but at first stages would have to produce abroad, and the currency difference plays a major role here," said Ilya Germanenko, the head of urban transport division for German engineering company Siemens' Russia and CIS office. Train producers said they would like to share their risks with the city authorities because the contract is long and the risks are high, though it is likely that the government could provide additional guarantees.

"At the end the Cabinet may pass a decision to financially support this project because it is unique," Bulatov said. "Only China is ordering more trains. Europe buys them in the hundreds, not thousands."

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