

Crimea Sucks Funds from Infrastructure Mega-Projects in Russia's Regions

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The government was to provide more than 100 billion rubles to develop infrastructure in and around the port of Taman in Krasnodar region.

Crimea has become a multi-billion dollar sponge soaking up funds slated for crucial infrastructure projects in other regions, as the government scrambles to support its newest territory's economy.

On Tuesday, Economic Development Minister Alexei Ulyukayev said that the federal budget would have to fork out from 160 billion rubles (\$4.5 billion) to 200 billion rubles each year starting from 2014 to support Crimea, Itar-Tass reported.

He also said that the government is going to cancel financing for two large infrastructure projects — construction of the port of Taman in Krasnodar region and the bridge across the River Lena in eastern Siberia. The bridge was intended to create a link to Yakutsk, which lacks any firm ground connections.

"Port Taman becomes of less importance as we have five deepwater ports in Crimea. And the bridge across Lena is also under question but for other reasons: the traffic there is low and the project itself is expensive," Ulyukayev said, Itar-Tass reported.

According to Ulyukayev, cancellation of these projects could free up to 112 billion rubles for use in other regions, including Crimea.

The statement followed a report by Bloomberg on Tuesday, quoting a letter signed by former Economic Development Minister Andrei Belousov, now the president's economic aide, suggesting the same measures.

An official request for comment on the letter to the presidential press service was left unanswered Tuesday.

The tender to build the 3.1-kilometer bridge across the Lena, however, had already been held. The winner, a consortium of companies, including bank VTB and SK Most, had offered to build the bridge for 38.9 billion rubles.

The port in Taman, meanwhile, was supposed to be able to handle more than 90 million tons of cargo per year when built, which would have made it Russia's largest deepwater port. The Transportation Ministry spent years lobbying for the project, which envisaged a radical modernization of the port's infrastructure and building a number of terminals to handle grain, metals, coal, containers and other cargo.

The government was to provide more than 100 billion rubles to develop infrastructure in and around the port and private investors were to invest about 50 billion rubles to build the terminals that would handle their own operations.

A number of companies had been interested in investing in the port, including coal and metal majors Kuzbassrazrezugol, SUEK, Metalloinvest, Basic Element, as well as logistics operators Global Ports, UCL Ports and OTEKO.

"These companies earlier signed agreements in front of President Vladimir Putin on participation in the project, including providing finances. Some of them reserved the required funds in their budgets so it seems very unlikely that this project will be called off," said Nadezhda Malysheva, chief editor of port industry site PortNews.

Basic Element and UCL Ports declined to comment on the issue. Metalloinvest, Global Ports and OTEKO could not be reached by phone on Tuesday.

The Transportation Ministry refused to provide an official comment on Tuesday but a source in the ministry told Itar-Tass that it would support the construction of the port in Taman.

"The ministry earlier has proven the project to be economically viable and the incorporation of Crimea does not make it less important. There are still no deepwater ports in Russia's south," Malysheva said.

Other analysts were doubtful the vast investments in Crimea declared by the government were needed in the first place.

"They have not calculated anything, have not audited the region and its assets, have not set cadastral value for them. How do they know how much is needed, where do all these billions of rubles come from?" said Alexei Bezborodov, the head of Infranews transportation research agency.

He also said that canceling the construction of the port in Taman, as well as channeling the money from other projects, was unlikely to cover for the needs to modernize Crimean infrastructure, which had not been renovated for decades. And even so, accurate calculation is required for that as well, and the officials have not yet had a chance to do that, he added.

"In any case, this all a big political game and so far the decision has not been made," the analyst said.

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