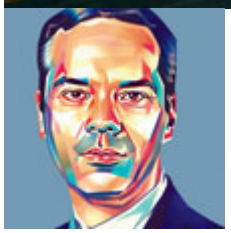
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Fighting Under the Rug: Russian Railways Cleans House (Op-Ed)

By Vladimir Milov

February 11, 2016



Yevgeny Parfyonov

Vladimir Milov

In Russia, simultaneous investigations are rarely a coincidence. Recent developments at the behemoth Russian Railways Company are unlikely to mark an exception to that rule.

Concurrent audits of Russian Railways by the Interior Ministry, carried out at the request of opposition politician Alexei Navalny, searches in connection with Russian Railways PR-contracts, revocation of the Central Bank's operating license for Russian Railways-linked Millennium Bank — such developments are no coincidence. They point to a coordinated campaign against former Russian Railways head Vladimir Yakunin and his legacy.

Russian Railways, the country's railway monopoly and operator of the biggest wagon fleet, is one of the largest transport companies worldwide and a key pillar of President Vladimir Putin's state-dominated economic model. It has reported annual revenues of almost 2 trillion rubles, or 2.5 percent of Russian GDP. From 2005 to 2015, Vladimir Yakunin was its uncontested CEO. Considered one of Putin's closest business allies from his St. Petersburg team, he was sacked in August 2015.

Pressure on Russian Railways has coincided with the company's new head, Oleg Belozerov, attempting to clean the company of Yakunin loyalists, accusing some of excessive spending harmful to the company — almost exactly the same language used by investigators in charge of the recent searches. The allegations include costly PR, limousines and dubious contracts taken out with companies controlled by relatives of top management.

This is not the first time Russia has seen such coordinated action. In February 2008, the Russian Accounting Chamber began a high profile audit of major state-owned infrastructure monopoly, Transneft — the country's trunk oil pipeline operator — in connection with alleged mishandling of funds intended for the construction of the Eastern Siberia–Far East oil pipeline (ESPO). The audit came a few months after the appointment of a new chief of Transneft, Nikolai Tokarev, in October 2007. In 2010, Navalny leaked the audit report to the media, exposing billions of dollars in murky transactions by Transneft subsidiaries.

The Russian Accounting Chamber's 2008 report on the Transneft audit provoked an uproar and lead to major changes in the management of Transneft and its subsidiaries. Essentially, it brought an abrupt end to the unbridled authority of the company's former chief, Semyon Vainshtock.

Belozerov finds himself in a similar situation today at Russian Railways, following a decade of unchecked domination by his predecessor Yakunin and his far-reaching loyalists. We do not know whether current efforts to investigate Russian Railways are truly seeking to expose controversial business practices and potential corruption, and change those things for the better, or only to assist Belozerov in getting rid of his predecessor's team.

WIth Transneft, the state was eager to close the case and hide indiscretions from the public — once new management had cleaned up its act. The 2008 Transneft audit report has never been officially published and authorities have distanced themselves from Navalny's media leak — claiming that "things were not really that bad." We do know that Russian Railways has been incautious when it comes to hiding excessive spending, kickbacks, and expenditure double-count.

It was caught redhanded by the tax revenue service for counting the same expenses twice for suburban commuter train services — a service segment long claimed as "loss-generating." For these alleged losses, the company receives tens of billions of rubles in annual compensation from the state budget. The artificial nature of these paper "losses" was demonstrated in early February 2015 by the Russian Accounting Chamber. In a routine audit, it noted that Russian Railways had "failed to undertake measures" to reduce losses generated by commuter train services, and that a large portion of expenditures originated from a maze of cross-payments between subsidiaries of Russian Railways.

Murky spending and accounting practices at Russian Railways are nothing new — even official regulatory agencies have produced evidence of it. Lack of competition and non-transparency are common diseases within state-dominated economic sectors led by high-level Putin cronies.

But why now, why Russian Railways, and what does the recent pressure say about changes within the Russian system? If one considers the state's obvious passivity during previous years on widely exposed cases of fraud and inefficiency at Russian Railways, the buzz surrounding Russian Railways points to one thing: New management, backed by the authorities, is expelling Yakunin's team using corruption allegations — the same way it did following Transneft's management changeover in 2008.

Once that has been accomplished, the dust will settle, and corruption will cease to newsworthy — yet again.

Vladimir Milov is a president of the institute of energy policy and a former deputy energy minister.

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