Russia: A Snapshot

Russia inherited important elements of its modern industrial infrastructure from the Soviet Union, including a decent power network and an extensive railway system. But its infrastructure was typically inefficient, and there were major deficits in areas such as transport and telecommunications. Since declaring independence in 1990, Russia has made solid progress in developing its infrastructure. Still, in the World Economic Forum’s Global Competitiveness Index for 2012-2013, Russia ranked 101st out of 144 countries for the quality of its overall infrastructure. Some sectors require considerable attention: for example, Russia ranked only 136th for the quality of its roads and 104th for its air transport infrastructure. Fortunately, the country has the resources to help finance a major modernization program, and the government has committed to invest over $1 trillion in infrastructure by 2020.

Demand for infrastructure is driven to a great extent by the oil and gas industry. The highest growth potential in Russia’s infrastructure sector relates to the export of commodities, with everything from pipelines to ports required to support the country’s massive output of oil and gas. The government has prioritized such projects, along with increased spending on transport infrastructure.

Hoping to attract more private capital, the government decided to create a $10 billion investment fund. The aim is to use this as seed money to mobilize as much as $90 billion over the next few years by financing up to 20% of the cost of privately-procured development projects. There are also plans to divest stakes in various state-owned transport and energy companies. Still, an expected wave of privatization has not yet gained real traction. Meanwhile, news reports suggest that attracting private investors in sufficient numbers remains a challenge, given their on-going concerns about the country’s political situation, legal framework, and the difficulty of protecting property rights.

Some of the financing for infrastructure in Russia comes from state lenders such as Vnesheconombank and from multilaterals such as the European Bank for Reconstruction and Development. However, according to Morgan Stanley, more than half of Russia’s infrastructure investment is currently executed and largely financed by just eight state-owned companies, led by Gazprom, Transneft, Russian Railways and the Federal Grid. Given the scale of Russia’s infrastructure needs, the challenge ahead is to attract more private investment.

4 See Morgan Stanley’s “Russia: A Low-Profile Infrastructure Boom”; http://www.morganstanley.com/views/gef/archive/2011/20111025-Tue.html#anchor03c3c5b6-4ef1-11e0-833e-bdcd75816a9]
Major infrastructure projects

**Oil and Gas:** As part of the development of the Vankor oil and gas field, a 543-km pipeline is being constructed, along with a gas turbine plant and 120 kms of roads. Other huge oil and gas projects include Sakhalin 2, which involves the construction of the Trans Sakhalin gas pipeline, an oil export terminal and an LNG plant.

**Mining:** In Siberia, a 3 GW dam is being constructed, along with an aluminum smelter, at an estimated cost of over $9 billion. Elsewhere in Siberia, a 412-km railway line is being built to connect valuable coal fields with the Trans-Siberian railway.

**Roads:** A 626-km highway is planned from Moscow to St Petersburg. There are also plans for a 1,521-km highway from Moscow to Novorossiysk.

**Sports:** Russia’s winning bid to host the 2018 soccer World Cup comes at a price. The country is expected to construct or reconstruct stadiums in 13 cities at an estimated cost of $3.82 billion, according to the Kyiv Post newspaper. With investment also required for new motorways, railways and tourist facilities, Prime Minister Vladimir Putin has estimated that the infrastructure bill for the World Cup will hit about $10 billion.

Fortunately, the country has the resources to help finance a major modernization program, and the government has committed to invest over $1 trillion to invest in infrastructure by 2020.
By the numbers

- In 2010, Russia’s infrastructure investment represented 7.4% of GDP, according to Morgan Stanley, versus 2% of GDP for Brazil and 9% for China.

- Russia’s infrastructure investment in 2010 was $111 billion, up from just $7 billion in 1999.

- The Russian government has committed to spend over $1 trillion on infrastructure by 2020.

- Morgan Stanley estimates that 40% of Russia’s investment in infrastructure goes to transport — primarily roads and railways. Almost 30% goes to power distribution and generation. About 20% is devoted to oil, gas and mining projects, including pipelines.5

- According to the World Economic Forum’s Russia Competitiveness Report 20115, the cost of building a road in Moscow is $31 million versus $3.6 million in the U.S. and $1.3 million in China.

To discuss the issues

Global capital projects & infrastructure leader
Richard Abadie
Tel +44(0) 20 7213 3225
richard.abadie@uk.pwc.com

Argentina
Maximiliano Galli
Tel +54 11 4850 6887
maximiliano.galli@ar.pwc.com

Australia
Brian Gillespie
Tel +61 7 3257 5656
brian.gillespie@au.pwc.com

Brazil
Carlos Biedermann
Tel +55 51 3378 1708
carlos.biedermann@br.pwc.com

Canada
Michel Grillot
Tel +1 403 509 7565
michel.grillot@ca.pwc.com

Central and Eastern Europe
Julian Smith
Tel +44 20 780 45814
tony.poulter@uk.pwc.com

China/Hong Kong
Gabriel Wong
Tel +86 (21) 2323 2609
julian.l.smith@ru.pwc.com

France
Peter Vickers
Tel +33 1 56 57 73 05
peter.vickers@fr.pwc.com

Germany
Hansjörg Arnold
Tel +49 69 9585 5611
hansjoerg.arnold@de.pwc.com

India
Manish Agarwal
Tel +91 996 757 4800
manish.b.agarwal@in.pwc.com

Indonesia
Rizal Satar
Tel +62 21 5289 0350
rizal.satar@id.pwc.com

Italy
Guido Sirolli
Tel +39 0 6 57083 2125
guido.g.sirolli@it.pwc.com

Japan
Yumiko Noda
Tel +81 3 3546 8512
yumiko.y.noda@jp.pwc.com

Malaysia/Vietnam/Thailand/Cambodia/Laos
Andrew Chan Yik Hong
Tel +60 3 2173 1219
andrew.yh.chan@my.pwc.com

Mexico
Francisco Ibañez
Tel +52 55 56 82 0617
francisco.ibanez@mx.pwc.com

Middle East
Charles Lloyd
Tel +971 56 682 0617
charles.lloyd@ae.pwc.com

Netherlands
Martin Blokland
Tel +31 8879 27586
martin.blokland@nl.pwc.com

Russia
Julian Smith
Tel +7 495 967 6462
julian.l.smith@ru.pwc.com

Singapore
Mark Rathbone
Tel +65 6236 4190
mark.rathbone@sg.pwc.com

Spain
Patricio de Antonio
Tel +34 679 186 806
patricio.de_antonio@es.pwc.com

Sweden
Lars Tvede-Jensen
Tel +46 8 555 33 403
lars.tvede-jensen@se.pwc.com

UK
Tony Poulter
Tel +44 20 780 45814
tony.poulter@uk.pwc.com

Uruguay
Jorge Seré
Tel +598 29160463 Int 1383
jorge.sere@uy.pwc.com

US
Peter Raymond
Tel +1 703 918 1580
peter.d.raymond@us.pwc.com

 Contributors

Strategic direction
Richard Abadie
Tony Poulter
Peter Raymond

Marketing + outreach
Lee Ann Ritzman
Jenni Chance
Becky Weaver

Editor
William Sand
Design
Odgis + Company
Janet Odgis
Rhian Swierat