

World Cup Russia 2018: Already the Most Expensive Ever?

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Abstract

At USD \$21 billion, the World Cup 2018 in Russia is on course to become the most expensive ever. Cost overruns at this early stage suggest, however, that the final bill will be much higher: the price tag for the 12 stadia has already grown from an initial USD \$2.8 billion to now USD \$6.9 billion, although construction on most venues has not even started. The projected costs place the Russian stadia among the most expensive worldwide. At USD \$11,600, the costs per seat are more than double those in Brazil. In a stagnating ticket market in Russia's premier league, the new venues will exacerbate overcapacities. With the economic outlook for Russia darkening, the World Cup 2018 is likely to become a deadweight to Russian economic development through the misallocation of scarce resources.

Yet Another Expenditure Record

While the heart stopper finish of World Cup preparations drew international media attention to Brazil, troubles are quietly brewing in the next host country. The paint is barely dry on Russia's Winter Olympics facilities, but the nation is already gearing up to host the next mega-event. As with Sochi, which cost at least USD \$51 billion, the World Cup 2018 is en route to becoming the most expensive ever. A 2013 government act (Postanovlenie 518) fixed the *minimum* budget at USD \$21 billion [RUB 660 billion]—and that's just for hosting the event. As the Chairman of the Organising Committee, Igor Shuvalov, remarked: "We have trimmed absolutely everything. There is nothing extraneous, not a single obsolete object. [We have kept in the budget] only what is associated with the World Cup." Yet, even this bare bones event comes in at almost double the current estimated costs of the World Cup in Brazil.

One just needs to look at stadium construction to get an idea of the shape of things to come. Ask people on the streets in St. Petersburg about the new stadium for hometown football team Zenit and everybody has a story to tell. "We've been waiting for years and there is no progress," said a frustrated fan when one of the authors interviewed him on Krestovsky island, site of the future stadium. "It's an insult to the fans and to the city." A middle aged woman in a Zenit scarf remarked: "Even a goat understands that the stadium is just an excuse for oligarchs and bureaucrats to steal money."

Construction on the Zenit stadium began in 2006 with an estimated budget of USD \$200 million and the venue was slated to open in 2009. That turned out to be a pipe dream. Originally named the "Gazprom Arena" for its primary sponsor, the stadium has since lost both the sponsor and the name, leaving the Russian state on the hook for financing. The budget has now risen to over USD \$1 billion, rivalling that of the Wembley Stadium, one of the big financial fiascos of stadium construction. The opening date has been pushed back to

2016, but seasoned residents intimate that it might well take until the 2018 World Cup before it opens its gates.

The expensive complications with the stadium in St. Petersburg seem to foreshadow the fate of the preparations for the 2018 World Cup, to be held in 11 cities in European Russia from 8 June to 8 July 2018 (see the map in Figure 1). As of June 2014, only 3 out of 12 stadia were even close to completion—Moscow's new Otkrytie Arena as well as the stadia in Kazan and Sochi. With Luzhniki and Ekaterinburg's Central Stadium, a further two already exist but are undergoing total renovation. St. Petersburg's stalled stadium is years from completion, and the remaining six stadia must be built from scratch, but work has yet to begin (see Table 2). The problem is that budgets—both for stadium construction and mega-event preparations at large—have a way of ballooning out of control, particularly because the deadline of the tournament's opening is not negotiable. It then falls to the public to pay the bills, on top of the major construction-related disruptions they endure during preparations.

The Troubles of Sochi and Kazan

The residents of Sochi and Kazan have already been through what awaits the other host cities: With the 2014 Winter Olympics and the 2013 World University Games (the so-called Universiade) both cities have hosted recent mega-events. As a result, they already have the majority of infrastructure for the upcoming World Cup—including a stadium, an airport with expanded capacity, road upgrades and an adequate number of hotel rooms. By now, however, residents of Sochi are weary of the continuing mega-event merry-go-round: "I don't have any feelings about the World Cup [in Sochi]," says one resident. "It's too far away to think about. I'm just glad they're using what they've already built. We can't take any more construction".

But the tribulations of Sochi and Kazan do not bode well for the remaining host cities. With 45,000 seats

Kazan-Arena is the second largest stadium in Russia after Moscow's Luzhniki and construction was completed just in time for the Universiade 2013 at an estimated final cost of USD \$471 million—almost double the initial estimate. Sochi's Fisht stadium, the site for the opening and closing ceremonies of the Winter Olympics, has a similar story. The initial budget in 2007 was USD \$56 million and construction began in 2009. It later transpired that work had begun illegally, without the necessary health and safety inspections or environmental impact studies. After numerous delays, labour controversies, worker accidents, environmental violations and huge cost overruns, the Fisht stadium was barely completed before the start of the Winter Olympics at an estimated final price of USD \$780 million.

Construction Delays and Escalating Costs

The travails of stadium construction in St. Petersburg, Kazan and Sochi might multiply for the World Cup. While the Kazan and Sochi projects focused on one location, Russia is now facing the challenge of coordinating eight stadium projects across eight cities at the same time. This means dealing with the diverging demands of different regional elites, different contractors, different stakeholders and different urban settings. Time pressure further compounds this situation. Vitaliy Mutko, the Russian Minister for Sports, admitted in March 2014 that construction is already behind schedule in every location: "The pace of designing the stadiums gives cause for alarm. Deadlines are being broken. There are problems in every region." At that point, seven stadia were still in the design phase.

As an early sign of trouble, costs are already going through the unfinished roof. Between the bid in 2010 and June 2014, forecasts for stadium expenditures have more than doubled from USD \$2.8 billion to USD \$6.9 billion (see Table 1). This makes the 12 stadia more expensive than the 20 stadia built for the World Cup 2002 in Korea and Japan, accounting for inflation. And the USD \$6.9 billion will not be the final estimate. In Brazil, for example, actual costs more than doubled when compared to estimates four years out.

The projected costs place the stadia in Russia among the most expensive worldwide. At USD \$577 million, the average cost per stadium is more than 50% higher than in Brazil and more than 3.5 times higher than for the World Cup stadia in Germany 2006 (see Müller 2014). Per seat, average costs are USD \$11,600 (see Figure 2). Compare this to the average seat in a football stadium for the World Cup 2006 in Germany, which cost about a quarter of that—just over USD \$3,000.

It is hard to blame higher input costs for these price excesses. Labour, building material and land are, if any-

thing, less expensive in Russia than in Western Europe. Technical requirements, too, are comparable, since FIFA stipulates them. A closer look suggests that some of the price inflation might be due to contractors skimming off rents. SportEngineering, a state-owned outfit that belongs to the Ministry of Sport, plays a central role in the contracting process. It became the developer on several of the stadium projects, although it often did not submit the lowest bid in the tenders. It does not, however, conduct much of the work itself, but outsources it to subcontractors. In the course of this outsourcing, SportEngineering keeps a generous portion of the funds for itself—"for responsibility", as it claims. This responsibility has not kept the costs from escalating and the taxpayers from being exposed to overpriced sports venues funded from the treasury.

Excess Capacities

When finished, the Russian World Cup stadia will exacerbate another problem: overcapacities. Stadium construction for the event will increase the number of stadium seats in Russia by nearly half a million. This is more than one-third of the capacity that existed in the country at the time of the bid in 2010. Yet, most Russian football stadia are already too large for the crowds they draw. The 15 clubs in the premier league use about 60% of their stadium capacities. Moreover, going to football matches is not a widespread pastime in Russia, compared to other countries. No more than 0.14% of the population go to see a premier league game. The average number of fans per game is just under 12,000. These attendance figures place Russia at the bottom of the table among larger countries in Europe. The demand for football tickets has not grown since the early 2000s, despite increasing disposable income. These factors make it unlikely that the investment into stadia is going to provide economic returns, raising the spectre of white elephants. Indeed, private investors or clubs have not come forward to fund the stadium construction. This disinterest from the private sector has forced the Russian state to dig into the federal budget for construction costs—just like in Brazil and South Africa.

Some of the outcomes of this building spree are nothing short of Kafkaesque. The Central Stadium in Ekaterinburg was built in 1957 in Stalinist neoclassicist style and re-opened after an USD \$82 million renovation in 2011, just after the World Cup had been awarded to Russia. It is now slated to close again for upgrading for the World Cup. The projected bill: almost half a billion US-Dollars (see Table 1). In the course of the renovation, the seating capacity will expand from 27,000 to 44,000, which is far higher than forecasts for future attendance. Since opposition candidate Evgeniy Roizman became

mayor of Ekaterinburg in 2013 and ousted the incumbent from United Russia, the debate has become more heated. He has fuelled controversies over whether it would be cheaper and less detrimental to the protected architecture to build a new stadium rather than revamp the existing one. Roizman is even skeptical of Ekaterinburg hosting the World Cup at all: "I don't know if it's worth spending 12 to 15 billion [USD \$390 to \$490 million] for four games in Ekaterinburg. I wouldn't hurry to open the city budget to fund an enormous international event that the city might not be interested in."

"If We Pay a Small Fine, We Could Get Out Of This."

If the preparations for the World Cup 2018 continue on their current path, it is clear that the mega-event will suffer from profligacy and produce massive stadium overcapacities. Every one of the stadium projects is already above budget and behind schedule. Yet, even compiling this information is difficult due to the lack of transparency: there is no monitoring of costs and no unified source of information such as a website for the public, neither is the bid book available online to compare promises against realities.

About the Authors

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For an extended analysis of the World Cup 2018 and its implications for Russia see:

Müller, Martin (2014). Event seizure: the World Cup 2018 and Russia's illusive quest for modernisation. Working Paper <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2368219>

Further reading:

- Gaffney, Christopher (2013). From Culture to Spectacle: the new logics of Brazilian football. *Territorio*, 65(1), pp. 48–53.
- KPMG. (2014). *Razvitie stadionov v Rossii: tochka zreniya KPMG*. Moscow: KPMG.
- Russian Analytical Digest No. 143. The Sochi Olympics. 09 February 2014.

While the inefficient allocation of resources will be welcome for the elites who have a stake in the event, it also increases pressure on the state budget. The economic outlook for Russia is bleak following the crisis in Ukraine, with growth forecasts a mere 0.2% for 2014, capital flight as high as during the 2008 financial crisis and a recent downgrade of the credit rating to just above junk bond status. The Russian state can ill-afford another extravaganza of the magnitude of the Sochi Games.

For Putin, this dilemma should cause headaches. He might find consolation in knowing that he is not the first person in the Kremlin to regret having clinched a mega-event. "This event will cost colossal amounts of money. In addition to massive expenditure, there is also the possibility of all kinds of scandals," wrote Leonid Brezhnev in 1975 about the 1980 Summer Games in a letter to Konstantin Chernenko, then the President of the Games Organising Committee and later Brezhnev's successor. "Some comrades have suggested to me that if we pay a small fine, we could get out of this." Who would not forgive Putin for having similar second thoughts?

Table 1: Stadium Investments for 2018 World Cup

City	Population (million)	Stadium			Stadium Cost			
		Name	Status	Opened	Planned 2010	Current 2014	Per seat	Overrun %
					USD million		USD thousand	
Moscow	11.5	Luzhniki	Upgrade	1956	240	654	8.1	172.5
		Otkrytie	New	2014	290	458	10.4	57.9
St. Petersburg	4.9	Zenit	New	2016e	415	1,144	16.5	175.7
Ekaterinburg	1.4	Central	Upgrade	1957	160	497	11.2	210.6
N. Novgorod	1.3	Strelka	New	2017e	240	556	12.4	131.7
Samara	1.2	tbd	New	2017e	180	431	9.6	139.4
Rostov	1.1	Levberdon Arena	New	2017e	225	474	10.5	110.6
Kazan	1.1	Kazan-Arena	New	2013	250	471	10.4	88.4
Volgograd	1.0	Pobeda	New	2017e	210	474	10.5	125.7
Kaliningrad	0.4	Baltic Arena	New	2017e	210	490	10.9	133.3
Saransk	0.3	Yubileiny	New	2015e	180	490	10.9	172.2
Sochi	0.3	Fisht	New	2014	225	780	17.8	246.7
<i>Average</i>					<i>235</i>	<i>577</i>	<i>11.6</i>	<i>147</i>
<i>Total</i>		<i>10 new, 2 upgraded</i>			<i>2,825</i>	<i>6,919</i>		

Sources: Population data from 2010 census; FIFA, Vedomosti, Interfax, ITAR-TASS, Don News, gazeta.ru, Rossiya2018.rf, wc-2018.ru.; an exchange rate of USD 1 = RUB 30.6 was used for calculation; e=expected

Table 2: 2018 World Cup Stadium Status

City	Stadium Status as of June 2014
Moscow (Luzhniki)	Wholesale refurbishment of historic Luzhniki stadium already underway. Facility will host the World Cup final match.
Moscow (Otkrytie)	New Otkrytie arena scheduled to open July 2014. Slated to host World Cup opening..
St. Petersburg	Completion of the Zenit stadium is now 5 years past schedule, costing over USD \$1 billion so far. Estimated completion now 2016.
Ekaterinburg	Reconstruction of existing stadium has been delayed due to protected historic status. Work promised to begin no later than September 2014.
Nizhny Novgorod	Land is currently being purchased for the stadium. Construction is slated to be completed by 2016.
Samara	Stadium design has passed necessary government inspections and construction is nearly ready to begin.
Rostov	Regional governor has presented finalized stadium designs. Construction is set to begin as soon as land purchase is complete.
Volgograd	Construction of the new stadium will begin as soon as crews complete demolition of the old stadium, scheduled no later than August 2014.
Kaliningrad	Supply roads are currently being built to the stadium construction site. Actual work on the stadium is scheduled to begin in summer 2014.
Saransk	Stadium work began in 2010 but was halted to ensure compliance with FIFA requirements. Work is scheduled to resume by June 2014.

Sources: Vedomosti, ITAR-TASS, Interfax, UralInformBuro, Championat-Rostov.ru, Rossiya2018.rf, wc-2018.ru

Figure 1: Map of Stadia and of Transport Infrastructure for the World Cup 2018 in Russia

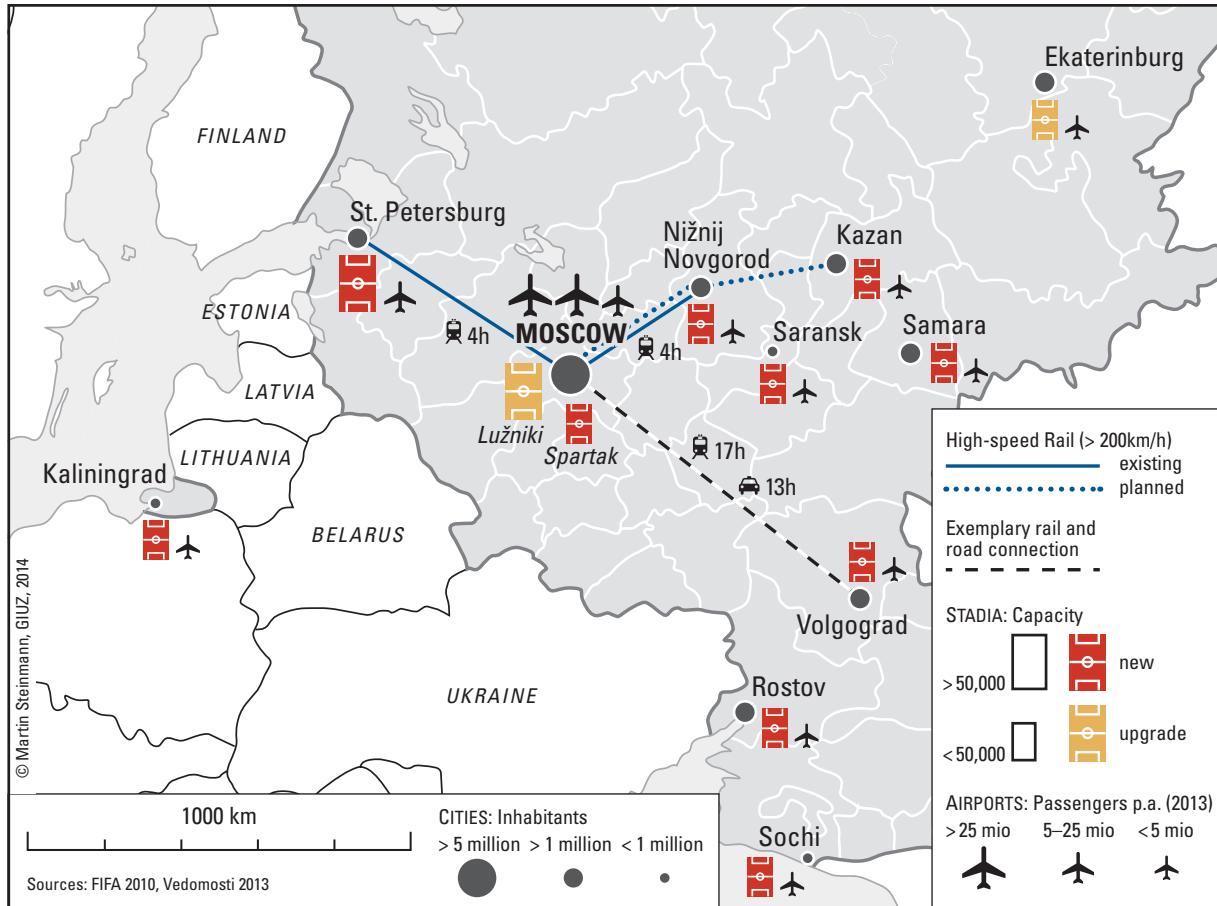
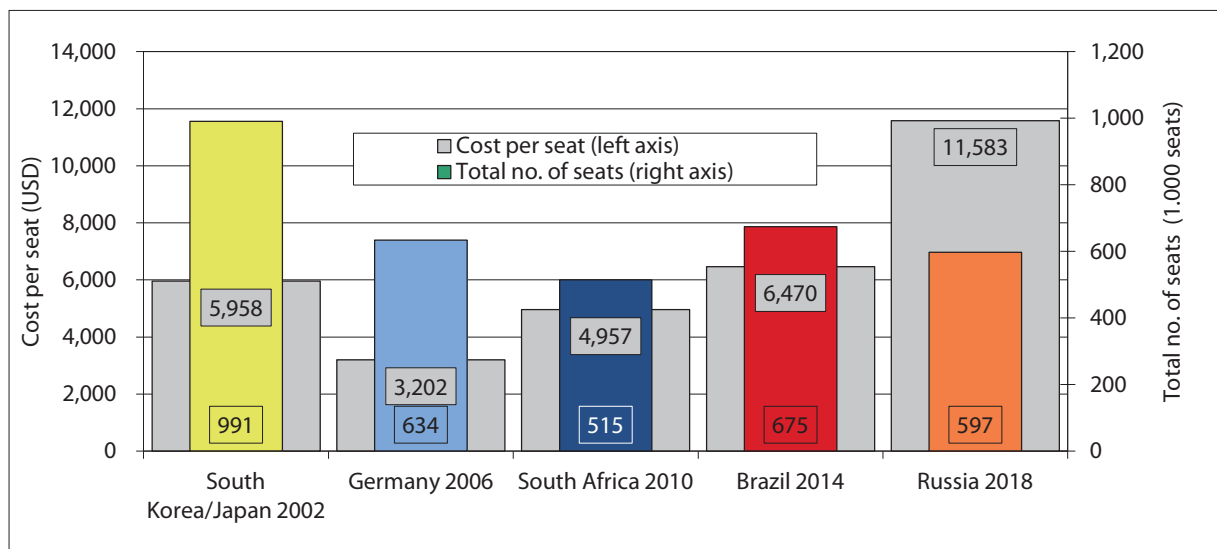


Figure 2: Comparison of Total Number of Stadium Seats and Costs Per Seat for the World Cups 2002, 2006, 2010, 2014 and 2018



Costs were converted from local currency units into USD with the World Bank data in the year of estimation and then deflated to the year 2014 using OECD GDP deflators. Sources: Associated Press; Cabinet of Germany; World Stadium Index; own calculations