

and plans for an extended network were rolled out in January 2011. The Moscow–St. Petersburg train cuts the journey time between Russia's two main cities (and the two biggest cities in Europe) to just 3.7 hours from 8 hours, and RZD says it will spend a total of €50bn (€14m–€22m per km) on several more routes before 2018. Total investment into the Moscow–St Petersburg track will be €10bn–€15bn, with a third coming from private sources.

The next high speed route will link Moscow and Nizhny Novgorod, with several more routes due to appear this year. Speaking to reporters on 28 January, Denis Muratov, CEO of RZD's High-speed Rail Lines unit, said that 660km of new routes should be up and running by 2017, which will link the capital with the host cities of Samara, Kazan and Yekaterinburg.

About the Author

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ANALYSIS

The Olympic Games in Sochi: Infrastructural and Security Challenges

By Valery Dzutsev, Maryland

Abstract

The 2014 Winter Olympic Games in the seaside resort city of Sochi has become a unique self-imposed burden for Russia. The massive preparative works for the Olympics have highlighted the state's incapacity to manage vast construction and infrastructure projects effectively. The proximity of the Sochi Olympics site to areas of militant activity in the North Caucasus poses security risks for the games' visitors that can hardly be ignored. In addition, the Olympic games in Sochi have revived a skeleton in Russia's closet—the Circassian genocide issue, a people that once occupied the lands around Sochi, but were partly exterminated and driven out by the Russian empire in the 19th century.

Sochi Olympic Paradoxes

Russia is known for its cold weather, which was supposedly one of Russia's competitive advantages in the contest for the right to host the 2014 Winter Olympics. Yet, the Winter Olympics in Russia will take place in the warmest part of the country, which is referred to as the only area in Russia with a subtropical climate. The average temperatures in Sochi in January are above +5°C, even though

Analysts at VTB Capital in Moscow state that “the estimated cost of the high-speed train network suggest that World Cup spending could reach about \$85bn (\$65bn for trains plus roughly \$20bn for stadiums and related infrastructure, as estimated in December 2010 by Minister of Finance Alexey Kudrin).” Furthermore, they note that “the announced preliminary estimates of the World Cup costs exceed our initial expectations of \$50bn and support our view that the government's preferences are shifting towards higher infrastructure spending. This, coupled with the close to zero real interest rates, would help to boost investment, which we see as the key GDP growth driver in the near term.”

the nearby mountains provide slightly colder weather during wintertime. This is just one of several paradoxes about the Winter Olympic Games in Sochi in 2014.

The initial costs associated with preparing the necessary infrastructure for the Olympics in Sochi were estimated at \$12 billion. Then the number rose to \$15 billion. Now the official estimate by the Russian Ministry for Regional Development exceeds \$30 billion, with most

of this money coming directly from the state budget. It is likely that even this enormous amount of resources may not reflect the true cost of the Olympics for Russia. *Vedomosti*, a business-oriented newspaper, reported in October 2010 that the Russian government's Audit Chamber tried to provide an accurate estimate of the Olympics' costs, in order to undertake an advance assessment of the state budget for 2011–2013. During this process, the Audit Chamber initially discovered that six government ministries and agencies would spend over \$11 billion across the next three years on preparations for the Sochi Olympics. However, eventually the Chamber revealed other hidden costs, outlining that fourteen state bodies were to spend a further \$5 billion of government funds in the same period.

The cost of the Sochi Winter Olympics will surpass those of the previous Winter Olympics in Vancouver and other previous host cities by the huge margin of 10s of billions of dollars. According to experts, the scale of these costs is explained by corruption, the low efficiency of the construction firms and, most importantly, the selection of the wrong venue to host the 2014 Olympics. On March 15, 2011 a further revelation about the Sochi Olympics emerged within the Kremlin. President Medvedev was told by his administration that the building materials at the Sochi construction sites are overpriced by 100%. Medvedev ordered Prime Minister Putin "to sort out" this issue, but it is hard to discern the government's alacrity to do so. Reports of corruption around Sochi have flooded the Russian press during the past couple of years, but yielded little result.

Sochi is squeezed between mountains and the Black Sea, restricting transportation within the city. To provide a reliable way of transferring the thousands of visitors for the Olympics from the city of Sochi to the lowlands amidst the mountains, in which many of the events will be held, a high-tech road combining railway and highway capabilities is being built in the area. This 50-km road alone costs over \$7 billion, which represents about \$150 million per kilometer.

Government officials state that their plans for the Olympics in Sochi will also provide developmental benefits for the whole area, which has bright tourism prospects because it is the only warm seaside area in the whole of Russia. Sochi's current population is about 400,000 and the government expects it to rise up to 800,000 by 2014. However, Sochi is known by Russians as a summer seaside resort, and it is very unlikely that Russians from Siberia will flock to Sochi to ice-skate in a city in which they would normally expect to find warmth and sunshine.

In May 2010 leading Russian opposition figures, Boris Nemtsov and Vladimir Milov, unveiled a stinging

report on the government's handling of the preparation for the Sochi Olympics. The official body that oversees the construction works, *Olimpstroi*, states on its website that both president Dmitry Medvedev and prime minister Vladimir Putin "personally control" preparations for the Sochi Olympics. According to the opposition, the expenses incurred thus far are not only unjustified, but they are also manifestly unsustainable in the long run. The report warned that the newly built infrastructure would certainly lay desolate after the Olympics have concluded, and thus precious resources would be wasted. An estimated 200,000 seats will be available for the visitors at the Olympic sites in 2014, yet currently Sochi has only 400,000 inhabitants.

Putin's Soldiers

Ural Mining and Metallurgical Company (UMMC) came up with an innovative approach to ensure that the Olympics facilities are put to good use after the games are over. This big Russian holding firm has proposed that it will build a Small Ice Palace in time for the Olympics and then disassemble and move it to another city. UMMC's *modus operandi* provides a rare glimpse of how Moscow is trying to overcome the challenges it faces in preparing for the Olympics. The Russian billionaire Iskander Makhmudov is believed to be the main beneficiary of UMMC. Reportedly Makhmudov received his first experience in international trade while working for Soviet government agencies. Back in 2002, the Russian news agency RIA-Novosti quoted Makhmudov as saying "we are all Putin's soldiers" (sic), when he was asked whether his company would be willing to help out one of Russia's regions.

There have been conflicting reports on where exactly the Small Ice Palace would be installed after the Olympics are over. Initially, UMMC planned to move it to Yekaterinburg in the Urals, where the company is headquartered. However, because of the massive public protests against pollution coming from UMMC's key factory in Vladikavkaz, North Ossetia, the management appear to have changed their mind, and are planning to move the Ice Palace to Vladikavkaz. On December 28, 2010 at a meeting with the North Ossetian governor, among the first questions of Prime Minister Putin was "UMMC-Holding will work [in North Ossetia], yes?" The factory in question, *Elektrozink*, is a 100 year-old facility situated in the central part of the 300,000 plus city of Vladikavkaz and is blamed for inflicting considerable damage on the region's environment and the local population's health.

The reciprocity between the Russian government and big businesses appears to be fairly straightforward. The businesses carry out government projects, especially

such critical ones as preparing Sochi to host the Olympic Games, taking on the financial burden and managerial risks. The government in response protects the businesses and enables them to capitalize by allowing them to bypass environmental and, possibly, other types of legislation. While this type of relationship between government and big business may look quite familiar to a western observer, the profound singularity of the contemporary Russian model, which is one of highly personalized patronage, resembles a feudal fiefdom more than a modern state. This also explains why the challenges from corruption are so great in the country and the government's fight against corruption is so futile.

Circassian Challenge

Russia's plan to host the 2014 Winter Olympics in Sochi revealed a darker side of the area's recent history, which has cast a shadow over hosting future sporting events, as well as sparking hot debates in the Caucasus region and beyond. Before the Russian conquest of the Caucasus in the 19th century, the Sochi area, along with the whole of the North-Western Caucasus, was home to numerous Circassian tribes. The expansion of the Russian empire into the North Caucasus unsettled the Circassian populace and fundamentally altered the ethnic make up of the Black Sea coastal areas. Following the defeat of the Circassian armies in the second half of the 19th century, the vast majority of Circassians (an estimated 90%) were either killed, died of artificially imposed hunger or deported to the Ottoman empire.

Currently the Circassians, also known as Kabardins, Cherkess, Adyge and Shapsugs, primarily live in five regions of the North Caucasus, the Republics of Kabardino-Balkaria, Karachay-Cherkessia, Adygea as well as Krasnodar and Stavropol *krai*. The Circassians only comprise a clear majority of the population in Kabardino-Balkaria. Sochi is part of Krasnodar *krai*, which is predominately inhabited by ethnic Russians. In the past the Circassians dominated the whole area of Krasnodar *krai* and further afield, but now comprise less than 0.5% of the *krai's* population. In total, the number of Circassians currently living in their homeland in the western part of the North Caucasus is about 0.7 million, as opposed to 5–7 million Circassians living in Diasporas abroad.

Ironically, the place where the Russian imperial army marked their defeat of the Circassians with a parade in 1864 is set to host most of the Olympic events, exactly 150 years later. In response, Circassian activists scattered across many countries, such as Turkey, Jordan, Syria, Germany, U.S.A. and Israel, have demanded that the 2014 Olympics be moved from Sochi. The activists claim that the horrors and the hardships inflicted by the

Russian empire on the Circassians qualify as "genocide" and therefore that the modern Russian state, as the self-proclaimed heir to the then Russian empire, must apologize and show a willingness to alleviate its consequences.

There is substantial historical evidence that supports the claims that the Russians committed atrocities in Circassian-inhabited areas during the 19th century. Russian generals, officers and travelers at that time had very little hesitation in describing the Russian state's punitive actions in the region. British journalist Oliver Bullough, in his recently published book 'Let Our Fame Be Great', labels these events as "the first genocide in Europe". The Russian side predictably dismisses these claims and there seems to be little pressure internationally to scrutinize the issue in depth.

However, at least one country in the vicinity of Sochi, Georgia, unexpectedly revealed its interest in inspecting the Circassian genocide issue in March 2010 and stated that if it found the claims to be justified would recognize Russians actions against the Circassians as genocide. Since this announcement, no recognition has followed, but the Georgian parliament is reportedly still working on the issue and may recognize the claims of genocide in the future. Indeed, following the Russian–Georgian conflict in August 2008, Georgia drastically reviewed its official view of the North Caucasus, announcing its proactive approach to the region.

North Caucasus' Simmering War

The international community may well choose to ignore the calls to hold Russia to account for the Circassian "genocide", but it cannot afford to turn a blind eye to the rapidly deteriorating security situation in the North Caucasus Republics, which are in close vicinity to the 2014 Olympic sites. Dagestan, Chechnya, Ingushetia, Kabardino-Balkaria all experience frequent attacks by separatist-minded Islamic militants. According to the Russian human rights center, Memorial, nearly 300 Russian law enforcement and military members died in attacks by militants in 2010. In relation to Sochi 2014, a very important development is that in the past year the violence has spread to Kabardino-Balkaria, which had been relatively unaffected previously. Kabardino-Balkaria is currently the western-most unstable Republic in the North Caucasus, and the situation there has the potential to influence the two other Circassian-populated Republics—Karachay-Cherkessia and Adygea. The latter two are adjacent to the Sochi region.

In January 2010, Medvedev created a special North Caucasus federal district. This move separated all of the Republics with major security challenges from the rest of the Southern federal district, in which the 2014 Winter Olympics are to be held. However, a double

suicide attack in Moscow on March 29, 2010, which killed 40 people and another suicide attack at the biggest airport in Russia, Domodedovo, on January 24, 2011 made Moscow's attempts to separate the conflict-ridden regions from the rest of Russia look unconvincing, especially for nearby Sochi. In 2010, militants attacked two hydroelectric plants, one in Kabardino-Balkaria and one in Dagestan, as well as numerous attacks on officials. In addition, tourists were killed in Kabardino-Balkaria and tourism-related infrastructure was targeted in February 2011. With these actions, the North Cauca-

sus insurgency proved its vitality and ability to launch many different types of attacks, and according to the current trend, are widening their actions across more and more of the territories in this volatile region. The Sochi Olympics will almost certainly be seen by the North Caucasian militants as a very lucrative target. Against this background, the Russian government has offered little reassurance to potential visitors to the Olympics, and thus currently anyone planning to attend the Olympics should be aware of this threat.

About the Author

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ANALYSIS

World Champions Bred by National Champions: the Role of State-Owned Corporate Giants in Russian Sports

By Markku Jokisipilä, University of Turku

Abstract

According to Vladimir Putin's "national champions" policy, Russian corporations in strategic sectors should serve national interests. A fascinating aspect of this policy is the Kremlin's recruitment of corporate giants, such as Gazprom and Rosneft, to fund Russian sport. International sporting success and the hosting of high-profile sporting events, especially the Sochi Olympics in 2014 and the FIFA World Cup in 2018, are seen as invaluable tools for signaling Russia's return as a great power. With its unrivaled track record of victories during the Soviet era, the Russian national ice-hockey team is viewed as having special importance by both Putin and Medvedev.

In his 1997 dissertation "Strategic Planning of the Reproduction of the Resource Base", the then future president of the Russian Federation, Vladimir Putin, introduced the concept of "national champions". What he meant by "national champions" was that large corporations in strategic industries crucial to national security should, as well as seeking to make profits, advance the interests of the nation. With close links to and strong support from the state, these companies would then become big enough to compete with privately-owned multinational companies, turning them into custodians of state interests in international trade.

On 18 May 2008, the Russian national ice-hockey team beat Canada 5–4 with an overtime goal in the final of the World Championships, played in Quebec City. For Russia, which during Soviet times had won seven Olympic and 22 World ice-hockey titles, this was

a first World title in 15 years. President Dmitri Medvedev congratulated the team immediately after the game in a telephone call, and two days later he hosted a reception at the Kremlin to honor the new world champions. In his speech the President stressed that "Russia needs such victories, it needs its sporting glory".

There is a strong link between these two seemingly distant events, namely the sponsorship money paid to ice-hockey by Russian corporations. For many Western commentators natural gas giant Gazprom, which is the biggest company in Russia, represents a textbook example of the "national champion" idea. Among its many activities, Gazprom is also one of the biggest sponsors of the Russian national ice-hockey team and Russian ice-hockey in general. Also, several other "national champions", including Rosneft and Tatneft (both oil), Transneft (oil pipelines), Russian Railways, Rosob-