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Vinci – a cover for oligarchs and tax havens in Russia's first road PPP

Executive summary

The first section of the Moscow – St. Petersburg motorway (km 15-58) is widely heralded as being the first public-private partnership (PPP) in the roads sector in Russia. Yet surprisingly little is known about the private sector concession-holder for the project – the North West Concession Company – considering that this is a company to which the Russian government and road users will pay EUR 1.5 billion¹ over the course of the 30-year contract.

The Russian media has widely reported the involvement of French construction giant Vinci and the Russian group N-Trans. Mention has also been made of Arkady Rotenberg, reportedly a friend of Prime Minister Putin, but without specifying his exact involvement. **This fact alone – that a public-private partnership is planned with a company whose constituent parts cannot be established from freely available public sources – rings clear alarm bells.**

A closer examination of the the North West Concession Company involved reveals a complex web of offshore entities ending in the British Virgin Islands, and confirms the involvement of Arkady Rotenberg. As the British Virgin Islands legislation allows companies registered there to keep their shareholders secret, it is clear that **these complex set-ups are aimed both at hiding the true beneficiaries of NWCC's lucrative contract.** The role of N-Trans and its billionaire owners remains unclear.

Further questions are raised by Vinci's side of the story and the involvement of the Lebanese/Syrian/French-backed Vosstran Invest SA. Why did a large and experienced company like Vinci need to get an unknown company like Vosstran involved? What are the interests of the people behind Vosstran? Do they have relevant experience for a project like this?

A new agreement with the NWCC is due to be signed in May but the Russian public deserves answers to these and many more questions before the project goes any further. The Russian government must disclose the existing concession agreement and re-examine the project if this project is to bring benefits to anyone other than the company owners. PPPs are gaining a reputation across Europe as being overpriced and transferring high profits to the private sector while the public sector ultimately retains most of the risks.² If this model is to be more successfully applied in Russia and avoid the problems that have arisen in other countries, it is crucial to get it right from the very beginning.

That the European public banks – the European Bank for Reconstruction and Development and the European Investment Bank – ever considered financing such an opaque project is astounding. While the European Bank for Reconstruction and Development is not currently involved in the project, and the project appraisal process at the European Investment Bank is also not proceeding, in the future they need to step up their project appraisal to screen out such un-transparent projects at a much earlier stage. Those banks which remain involved in the project – Sberbank and Vnesheconombank – likewise need to re-assess the risk they are taking on by financing an untraceable structure.

¹ European Investment Bank project document, 11.11.2009 <http://www.eib.org/projects/pipeline/2007/20070489.htm>

² See for example CEE Bankwatch Network: Never mind the balance sheet: the dangers of public-private partnerships in central and eastern Europe, November 2008, www.bankwatch.org/documents/never_mind_the_balance_sheet.pdf

Introduction

The first section of the Moscow – St. Petersburg motorway (km 15-58) is the first public-private partnership (PPP) in the roads sector in Russia. In 2008 the North West Concession Company was declared the winner of the tender procedure in which it had been the only qualifying participant,³ with the Minister of Transport having formerly worked for one of the companies widely reported as standing behind NWCC.⁴ As competition for the market is one of the few ways of increasing the value for money for the public sector in PPP projects, this should already have been a warning sign. Nevertheless the project continued, generating strong opposition against its routing through Khimki Forest near Moscow, until in August 2010 after an intense month of protests and violence against activists, President Medvedev called a temporary halt to the project pending new public hearings.

The hearings that followed were never public, and the Russian government's decision in December 2010, to continue with the routing as planned, went against all logic, according to an independent expert assessment published in February 2011, which found that the planned routing was among the very worst among several alternative solutions.⁵ President Medvedev himself has recognised that the route chosen was not the best solution and that it was chosen mainly to serve private interests.⁶

Now, however, there is another reason to re-examine the project. After years of general assumptions in the Russian media that the project participants were Vinci, N-Trans and perhaps Putin's reported associate⁷ Arkady Rotenberg, it was noted that no-one really seemed to know in detail who was involved and where the money from this supposed public-private partnership would really end up. This research uncovers the companies and individuals involved, as far as possible. The fact that such research was required simply to find out who are the beneficiaries of a public-private partnership is extremely worrying, as is the fact that even now some parts of the puzzle remain unclear.

In May the Russian government is due to sign a new agreement with the concession company NWCC. Considering that this is a company to which the Russian government will pay EUR 1.5 billion⁸ over the course of the 30-year contract, it is worth taking the time to get it right and ensure that the public sector will obtain good value for money. In conclusion we therefore recommend re-examining the project before taking any further steps.

Shareholder structure of the North-West Concession Company Moscow

1. The North West Concession Company (and its presumably Russian shareholders)

1.1 The North-West Concession Company Moscow (NWCC) is 100 percent owned by Vinci Concessions Russie SA Rueil Malmaison. Vinci Concessions Russie SA is more or less a 50/50 joint venture between Vinci Concessions Vosstran Russie SAS Rueil Malmaison (25 percent) + Vinci Concessions SA Rueil Malmaison (25 percent) AND Sunstone Holding Limited Limassol (Cyprus).⁹

1.2 According to a transaction summary, Vinci SA Rueil Malmaison, a provider of construction and engineering services, together with N-Trans Group, Moscow, Central Federal District, Russia, a provider of

3 *Russian Highways*, 30 October 2008: http://rosavtodor.ru/print/shownewsn_print.php?id=9591; *RIA News*, 6 November 2008: <http://riarealty.ru/ru/article/78/33929.html>

4 SeverstalTrans – now called N-Trans <http://www.government.ru/eng/persons/16/>

5 Independent Expert Committee, Independent Environmental Review of the Moscow – St. Petersburg motorway project (15-58 km section), 2011 http://www.ecmo.ru/data/April2011/expert_examination_en.pdf

6 At a 1 February 2011 meeting of the Presidential Council for Civil Society Development and Human Rights in Yekaterinburg

7 Bloomberg: Putin's Judo-Playing Friend Says Premier Didn't Help Him Win Gazprom Deals, 28 April 2010

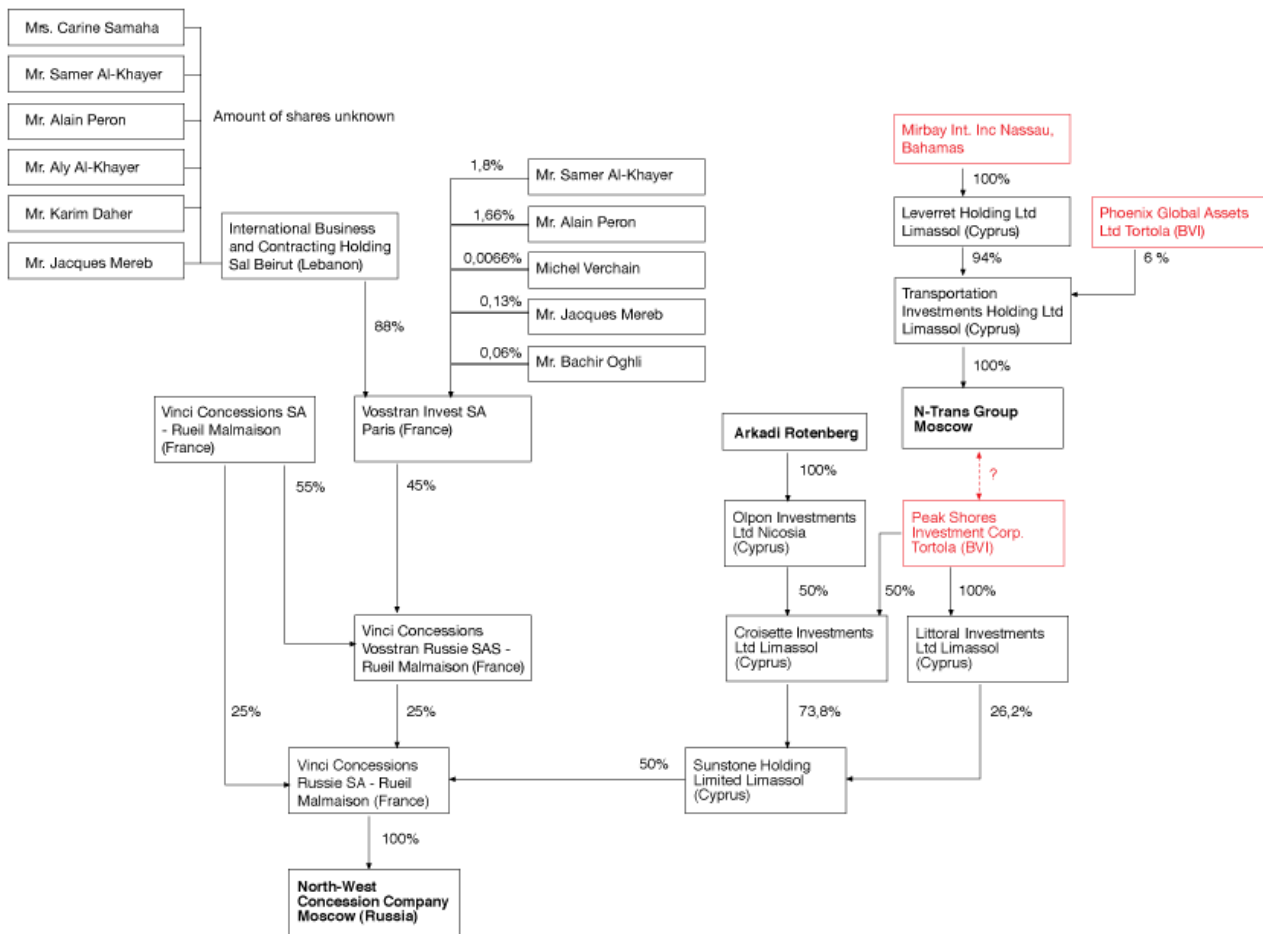
<http://www.bloomberg.com/news/2010-04-28/putin-s-judo-playing-friend-says-premier-didn-t-help-him-win-gazprom-deals.html>;

Reuters: Putin's judo partner jumps in Russia's rich list, 15 February 2011, <http://www.reuters.com/article/2011/02/15/us-russia-rich-idUSTRE71E1QN20110215>

8 European Investment Bank project document, 11.11.2009 <http://www.eib.org/projects/pipeline/2007/20070489.htm>

9 Company Registry France, 2007. Statute of Vinci Concessions Russie SA Rueil Malmaison, 7 November.

rail, sea and river transportation services, agreed to establish the 50/50 joint venture North-West Concession Company, Moscow, Central Federal District, Russia, to construct a transportation network in Russia.¹⁰



1.3 Vinci Concessions Russie SA is 50 percent owned by Sunstone Holding Ltd Limassol, which is 73.8 percent owned by Croisette Investments Ltd Limassol and 26.2 percent by Littoral Investments Ltd Limassol¹¹. A 50 percent shareholder of Croisette and the 100 percent shareholder of Littoral is a British Virgin Islands company called Peak Shores Investment Corp. Tortola¹². The remaining 50 percent of Croisette is held by another Cyprus company called Olpon Investments Ltd Nicosia¹³. **Mr Arkady Rotenberg holds 100 percent of Olpon Investments Ltd Nicosia¹⁴.**

1.4 **The Peak Shores Investment Corp. is a dead end.** Its incorporation documents do not show who are the shareholders of the company.¹⁵ The British Virgin Islands legislation does not require them to do so.

1.5 **Therefore, it was established that the ultimate beneficiaries and shareholders of about 1/3 of NWCC have been deliberately hidden from the public.** Nevertheless, given the information in section 1.2 about the participation of the Russian N-Trans group in the project, the structures behind N-Trans LLC were also analyzed.

10 Corpin Ltd, 2011. Transaction Summary on North-West Concession Company Moscow, 10 January.

11 Company Registry Cyprus, 2011. Company Information on Sunstone Holding Limited Cyprus, 4 April.

12 Company Registry Cyprus, 2011. Company Information on Croisette Investments Ltd Cyprus, 13 April and Littoral Investments Ltd Cyprus, 13 April.

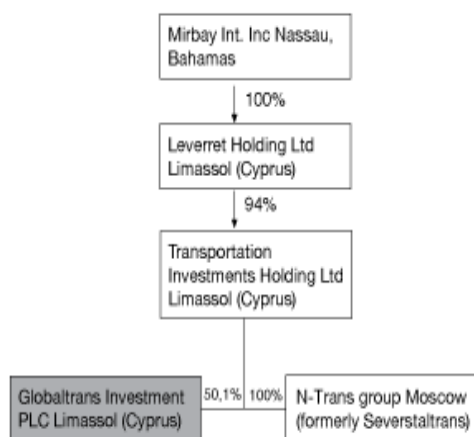
13 Company Registry Cyprus, 2011. Company Information on Croisette Investments Ltd Cyprus, 13 April.

14 Company Registry Cyprus, 2011. Company Information on Olpon Investments Ltd Nicosia, 20 April.

15 British Virgin Islands Financial Services Commission, 2011. Company information on Peak Shores Investment Corp. 21 April.

1.6 N-Trans Group's parent is another Cyprus-based company called Transportation Investment Holding Ltd¹⁶, whose main shareholder is Leverret Holding Ltd Cyprus with 94 percent¹⁷. Leverret Holding Ltd Limassol is 100 percent owned by Mirbay International Inc, a company based in Nassau, Bahamas¹⁸. **Mirbay International Inc. is a second dead end, as Bahamas company documents often do not contain information on shareholders.**

1.7 As Mirbay International Inc. Nassau is the 100% shareholder of Leverret Holding Ltd Limassol and due to the fact that the Globaltrans Investment Plc, another subsidiary of Transportation Investment Holding Ltd – apparently unrelated to this project - mentions Mirbay as its global ultimate parent in its consolidated financial statements (31 December 2010), **it can be concluded that Mirbay is the global ultimate of N-Trans too. But who are the people behind Mirbay?**



1.8 In order to find a possible answer, N-Trans, as the most often publicly mentioned company in the cluster, was examined. The name N-Trans stands for National Transportation Group and is reportedly the new name for the Severstaltrans Group (ST)¹⁹. Transportation Investments Holding Ltd Limassol is the parent company of N-Trans. The Company was established as Severstaltrans ZAO in 1996 by its current senior management team and Mr. Alexei Mordashov, the majority shareholder of Severstal, which is one of Russia's largest steel and mining conglomerates. Through a series of acquisitions and investments Severstaltrans grew rapidly between 1996-2006 with a focus on rail transportation and port services and is one of the largest private transportation companies and container terminal operators

in Russia. In July 2007, senior management bought out Mr. Mordashov's 50 percent stake and now controls 100 percent of TIHL and thus N-Trans.²⁰ **National Transportation Group's senior management and owners are reported to be billionaires Konstantin Nikolaev (General Director), Andrey Filatov (Executive Director), and Nikita Mishin (Executive Director).**²¹

Thus N-Trans LLC has a very unclear structure, again ending up in an offshore company. Therefore, we have been unable to confirm the information in the transaction summary mentioned in section 1.2 about N-Trans' ownership of a part of NWCC LLC.

It is worth noting that the Russian Minister of Transport, Mr Igor Levitin, worked at SeverstalTrans from 1996-2004, becoming Deputy CEO in 1998²² - a history which has earned accusations of nepotism in the awarding of the concession for the motorway.

2 The North West Concession Company (and its French shareholders)

2.1 With respect to Vinci's involvement in the joint venture, surprisingly Vinci Concessions Russie SA is part owned by the French Vosstran Invest SA Paris, whose shareholders, according to the General Assembly documents are:

¹⁶ Corpin Ltd, 2011. Transaction Summary on North-West Concession Company Moscow, 10 January.

¹⁷ Company Registry Cyprus, 2011. Company Information on Transportation Investment Holding Ltd Cyprus, 14 March.

¹⁸ Company Registry Cyprus, 2011. Company Information on Leverret Holding Limited Cyprus, 23 March.

¹⁹ WorldCargo News, 2007. Severstaltrans buys into Multi-Link Terminals, 15 December. See:

<http://www.worldcargonews.com/htm/w20071215.920688.htm>

²⁰ Alacra Store, 2007. Report on Transportation Investments Holding Ltd. (Severstaltrans), 4 December. See:

http://www.alacrastore.com/research/moodys-global-credit-research-Transportation_Investments_Holding_Ltd_Severstaltrans-PBC_106269

²¹ Graham & Whiteside Ltd, 2010. Report on N-Trans Group of Companies, 13 August. Forbes: World's billionaires, March 2011, <http://www.forbes.com/profile/konstantin-nikolaev>

²² Russian government website: <http://www.government.ru/eng/persons/16/>

- Samer Al-Khayer 1.8 percent
- Alain Peron 1.66 percent
- Jacques Mereb 0.13 percent
- Bachir Oghli 0.06 percent
- Michel Verchain 0.0066 percent
- International Business and Contracting Holding Sal Beirut 88 percent (IBC Sal).

2.2 International Business and Contracting Holding Sal Beirut is owned by²³:

Mr. Aly El Khayer
 Mr. Alain Peron
 Mr. Samer El Khayer
 Mr. Karim Daher
 Mr. Jacques Mereb
 Mrs. Carine Samaha

A basic search shows that some of these people are involved in various business ventures, whereas others are very low-key. It is not obvious why Vinci needed to bring them or the companies into the special purpose vehicle for the project as none of them have any clear association with motorway construction or operation.

Discussion and conclusions

A new agreement between the Russian government and the NWCC is due to be signed in May, however the government would be well advised to re-examine the company behind the project.

The North-West Concession Company in Moscow ends up in an opaque web of companies, which are mainly based in the tax privileged jurisdiction of Cyprus and partially end up in tax haven companies based in Tortola, British Virgin Islands, and (if N-Trans is indeed involved) in Nassau, the Bahamas.

It is confirmed that Arkady Rotenberg, widely reported to be an associate of Prime Minister Vladimir Putin²⁴, is one of the participants in the project. This raises the question of whether the decision taken to continue the planned routing after President Medvedev called a temporary halt to the project in August 2010 following protests regarding Khimki Forest came as a result of genuine evaluation or rather as a result of nepotism.

The involvement of Vosstrans in the project also raises several questions as its added value in the concession company is unclear. Why did a large and experienced company like Vinci need to get an unknown company like Vosstran involved? What are the interests of the people behind Vosstran? Do they have relevant experience for a project like this?

Such issues should also be a concern for the financiers of the project. While the European Bank for Reconstruction and Development is not currently involved in the project, and the project appraisal process at the European Investment Bank is also not proceeding, the opaque set-up may present risks for the current financiers, Sberbank and Vnesheconombank. Considering the poor competition in the tender procedure and the opaque set up of NWCC it is surprising and alarming that the EIB and EBRD considered the project for as long as they did.

The fact that it is not possible to obtain shareholder data from the Bahamas or the British Virgin Islands also leads to concerns that deliberate attempts are being made to conceal the final beneficiaries of the project. Is it possible that billionaires Konstantin Nikolaev, Andrey Filatov, and Nikita Mishin are indeed the owners of

²³ Commercial Register of Beirut: Commercial circular: International Business and Contracting Holding Sal Beirut, provided April 2011

²⁴ Bloomberg: Putin's Judo-Playing Friend Says Premier Didn't Help Him Win Gazprom Deals, 28 April 2010

<http://www.bloomberg.com/news/2010-04-28/putin-s-judo-playing-friend-says-premier-didn-t-help-him-win-gazprom-deals.html>;

Reuters: Putin's judo partner jumps in Russia's rich list, 15 February 2011, <http://www.reuters.com/article/2011/02/15/us-russia-rich-idUSTRE71E1QN20110215>

Mirbay International and among the final beneficiaries of NWCC? If so, why do they conceal their participation? The North-West Concession had been announced as a joint venture between the Russian N-Trans Group and French Vinci Group. As a PPP the concession will be partly publicly funded. It has to be guaranteed and clear to the public where the government's and road users' funds are flowing. A web of offshore companies in Cyprus, the British Virgin Islands and possibly the Bahamas is clearly contravening transparency, which should be a fundamental standard regarding PPP projects.

Recommendations

The Russian public deserves answers to the above questions before the project goes any further. The Russian government must disclose the existing concession agreement and re-examine NWCC's structure, final beneficiaries and tax contributions if the project is to bring any public benefits. The full structure of the company must be made public, including the shareholders of the British Virgin Islands and if applicable, Bahamas companies.

The Russian government must also re-examine whether the decisions to award NWCC the concession and to continue with the originally planned routing in December 2010 were taken as a result of careful deliberations, or rather as a result of nepotism or lobbying.

Although the European Bank for Reconstruction and Development is not currently involved in the project, and the project appraisal process at the European Investment Bank is also not proceeding, there are still lessons to be learnt from their earlier project appraisal processes. In the future they need to step up their project appraisal to screen out such un-transparent projects at a much earlier stage. Those banks which remain involved in the project – Sberbank and Vnesheconombank – likewise need to re-assess the risk they are taking on by financing an untraceable structure.