

Natural Monopolies Off Sale List For 2011

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Economic Development Minister Elvira Nabiullina. She said Tuesday that the state won't privatize its stakes in defense or natural monopolies in 2011. **S. Porter**

The state will not privatize stakes in its natural monopolies or defense firms next year, Economic Development Minister Elvira Nabiullina told reporters Tuesday in the latest sign of skittishness in the government to part with key assets.

In late July, Nabiullina and Finance Minister Alexei Kudrin put together a list of 11 state-run companies in which stakes should be privatized through 2013. Several companies, notably state rail monopoly Russian Railways, were dropped from the initial list.

The Finance Ministry has called the sell-offs — which could raise at least \$29 billion — a way to patch budget deficits in the coming years, while Nabiullina has said it will reduce the state's "excessive" role in the Russian economy.

"I won't say what exactly will be privatized in 2011. We intend to offer fairly major stakes and stakes in major companies," she said, adding that natural monopolies and defense firms would not be offered next year.

Selling more shares in oil giant Rosneft may also be discussed, Nabiullina said.

The privatization targets currently include at least two natural monopolies: oil pipeline monopoly Transneft, in which the state owns 78.1 percent, and the Federal Grid Company, or FSK, where the government controls 79.11 percent.

Nabiullina's comments come a day after Kudrin said none of the major asset sales would be held this year, as the government has yet to approve the stake sizes or other parameters of the deals.

Kudrin estimated that the details of the program would largely be worked out this month but only completed early next year, after which the government will need to conduct the sales.

Analysts said the ministries were steering clear of the natural monopolies and defense holdings, where the state has an interest in maintaining control.

Minority shareholders have complained about the lack of transparency at state-run companies, and Transneft is currently fighting lawsuits from small stakeholders to force it to disclose charity contributions and other spending.

"By next year, many of the prohibitive risks will be lowered," said Yaroslav Lissovolik, chief economist at Deutsche Bank Russia, citing global risk aversion.

The government has said it hopes to make foreign investors a key part of the asset sales.

"The banking sector is less problematic or controversial for the purposes of privatization than some of the natural monopolies, where the state would like to retain control," Lissovolik said.

Kudrin suggested on Monday that he would like the state's stake in VTB whittled down to just over a controlling 50 percent.

"While the [privatization] program may not be implemented to the last dot, the Russian government is determined to sell off a big portion of its stakes in a few major companies, and this viewed is as a positive and landmark trend," Lissovolik said.

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