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INDEPENDENT NEWS FROM RUSSIA

State Board Purge to Start July 1

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President Dmitry Medvedev has given Prime Minister Vladimir Putin until July 1 to start removing government ministers from the boards of state companies, adding teeth for the first time to his long-floated initiative to improve the country's investment climate.

In light of next spring's presidential election, the deadline imposed by Medvedev on Saturday could also be construed as a challenge to Putin, who has key allies among the ministers sitting on the boards of those companies.

But with the ax poised to fall on both hard-liners and foreign investor-friendly liberals in the Cabinet, the shuffle appears to be more about business than politics, analysts said.

Medvedev signed off on the initiative to replace deputy prime ministers and ministers with independent directors on Saturday, just three days after resurrecting the issue at a meeting of his modernization commission. There are 17 companies with government ministers who might have to quit their posts this summer. Among them are Rosneft, chaired by Deputy Prime Minister Igor Sechin, the close Putin ally responsible for the energy sector, and VTB

bank, chaired by Finance Minister Alexei Kudrin, who is deemed a more liberal politician sensitive to the worries of investors.

Medvedev expects Putin to ensure that independent directors are appointed to the vacant positions by Oct. 1, according to a statement published on the Kremlin's web site.

The president will also require the departure of all other senior government and Kremlin officials from the boards of companies with any degree of state ownership, presidential aide Arkady Dvorkovich said Saturday.

"Only lower-level officials will be able to remain on a board of directors — for example, a deputy minister or a department head — but they will not be able to head the board of directors," Dvorkovich said, Interfax reported.

The measure was first proposed by Medvedev during the campaign before his 2008 election but was quickly swept under the carpet as the economic crisis spread across the country.

This time Medvedev has set a firm deadline for Putin and made a list of people involved, showing his determination, said Maria Lipman, editor of Pro et Contra, a policy journal published by the Carnegie Moscow Center.

"It will be important to know who will come in to replace them," she said.

But Lipman advised taking a wait-and-see stance on the shuffle, which, she said, "is very important in Russia, where people talk a lot and little is done."

Others expressed more enthusiasm, saying the crisis and not politics was to blame for Medvedev's seeming hesitation in following through on his campaign trail plans.

"The crisis did not allow Medvedev to address the issue properly," said Yaroslav Lissovolik, chief economist at Deutsche Bank. "Problems like economic stability and currency exchange were more of a priority at that time. Many issues that had been discussed pre-crisis were put on hold when it began."

Lissovolik saw the measure largely as economically beneficial and having little, if anything, to do with pre-election politics between Medvedev and Putin.

"This is definitely a positive decision because corporate governance should improve as a result," Lissovolik said, adding that investors' attitude toward Russia could improve significantly by removing any conflict of interest between the government and the companies in which it participates.

Several analysts declined to comment on the issue, saying that separating business from politics is really difficult with state-owned companies in Russia.

The Kremlin has sent many signals to foreign investors over the past few years that pushed them away, Lipman said, and changing this dynamic will not be easy.

"No single action will fix Russia's investment climate," she said. "A substantial amount of time should pass for the rule of law to become visible in Russia."

But if Medvedev were to look for a single decision to dramatically improve the investment climate, she said, it would have to be a rethink of the legal onslaught against former Yukos CEO Mikhail Khodorkovsky, who is serving a 14-year prison sentence after two trials that supporters call Putin's punishment for his political and commercial ambitions.

"He is a symbol of the law in Russia," Lipman said.

Ministers Losing Board Seats

Following is a list of companies and the government ministers who will quit their boards:

1. VTB bank: Finance Minister Alexei Kudrin
2. Alrosa diamond monopoly: Kudrin
3. Rosselkhozbank agricultural bank: First Deputy Prime Minister Viktor Zubkov
4. Rosspirtprom spirits company: Zubkov
5. Rosagroleasing agricultural leasing company: Zubkov
6. Rosneft oil company: Deputy Prime Minister Igor Sechin
7. Rosneftegaz oil and gas holding: Sechin
8. Inter RAO power trader: Sechin
9. Oboronservis defense firm: Defence Minister Anatoly Serdyukov
10. RusHydro electricity producer: Energy Minister Sergei Shmatko
11. Gazprom natural gas exporter: Shmatko
12. Zarubezhneft oil company: Shmatko
13. Sheremetyevo International Airport: Transportation Minister Igor Levitin
14. Aeroflot airline: Levitin
15. United Grain grain trader: Agriculture Minister Yelena Skrynnyk
16. Communications Investment Company: Communications and Press Minister Igor Shchyogolev
17. Channel One television station: Shchyogolev

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