

Investor Bill Promises Transparency

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The government may ostensibly be trying to ease red tape for Russian owners of foreign offshore companies hunting for strategic assets at home, but the planned new rules would require potential buyers to disclose their identities.

President Dmitry Medvedev has ordered the Cabinet to put together amendments that would allow such Russian owners of foreign firms to buy strategic assets at home without asking the government for permission.

The amendments — which would also grant similar rights to international financial institutions such as the European Bank for Reconstruction and Development — are to be introduced to the State Duma by the middle of next month, according to Medvedev's order published on the Kremlin web site Saturday.

The order is part of what the Kremlin portrayed as an effort to improve the investment climate.

Under a law that went into effect in May 2008, foreign companies have to submit their requests to buy major stakes in strategic companies to a special government commission chaired by Prime Minister Vladimir Putin. A third of these requests actually come from Russian-owned businesses, the Federal Anti-Monopoly Service conceded in 2009.

Russians register their enterprises in offshore havens to seek lower taxes, better legal protection and greater confidentiality.

Andrei Zelenin, a partner at law firm Lidings, said businessmen would have to come into the open if they want to take advantage of the planned legislative changes.

The Federal Anti-Monopoly Service, whose chief Igor Artemyev acts as secretary for the government's foreign investment commission, sought in 2009 to legally mandate offshore companies applying to purchase domestic assets to disclose their end beneficiaries, but these efforts lead nowhere.

The desire of Russians to keep their business interests secret was perceived to be so prevailing that analysts warned at the time that any attempt to reverse the pattern would send the country's investment climate into a nosedive.

The anti-monopoly service said in May 2009 that a third of 60 requests it had collected for a review by the government's strategic sector commission were from Russian-owned companies.

But not all of the Russian applicants concealed who they were.

Oleg Deripaska's En+ company sought — unsuccessfully — permission to buy mid-sized oil producer Russneft, while Suleiman Kerimov's Nafta Moskva received approval to buy a stake in gold miner Polyus Gold.

A spokesman for Basic Element, which owns En+, said the company wouldn't comment until the government releases the amendments.

Foreign lenders, such as the European Bank for Reconstruction and Development, sometimes have to seek government permission to buy stakes in Russian companies, Deputy Economic Development Minister Stanislav Voskresensky said, Vedomosti reported Tuesday.

The government granted EBRD permission to buy an 11.75 percent stake in Promsvyazbank last year, the report said.

The government has already made steps to rewrite the strategic investment law in favor of investors. The State Duma received an amendment from the government last week to allow foreign investors to buy up to 25 percent of natural resource producers, which own strategic deposits, without having to get government permission.

The threshold is now 10 percent. Strategic deposits hold upward of 70 million metric tons of oil, 50 billion cubic meters of gas and 50 metric tons of gold.

Even earlier this year, The State Duma gave initial approval to a separate package of amendments to the foreign investment law.

The changes would remove the need for government permission if foreign companies want to take a stake of any size in a private bank or participate in additional share issues of any company as long as such a purchase doesn't change the foreign investor's overall share.

There are 42 industries on the strategic list, including the aerospace, nuclear power, publishing and fishing industries.

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