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Putting Bill Gates in Charge of Apple

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Prosecutor General Yury Chaika created a minor scandal last week when he announced that Domodedovo Airport is managed by foreign companies and that, in his opinion, this constitutes a threat to national security.

Several days before Chaika made his announcement, reports surfaced that Domodedovo was planning to place up to 25 percent of its shares — worth about $1 billion — with major foreign investment funds. Morgan Stanley, JPMorgan, Goldman Sachs and Credit Suisse were serving as consultants to the deal. In its presentation to those prospective buyers, Domodedovo management revealed the airport's record performance for the first time: In the last 10 years, the number of passengers using the facility has increased eightfold and its EBITDA margin — which is earnings before interest, taxation, depreciation and amortization divided by total revenue, and gives investors a cleaner view of a company's core profitability — stands at an amazing 42 percent. By comparison, the Frankfurt airport has an EBITDA margin of 20 percent. In other words, opponents of Domodedovo's investment plans pulled out all the stops.

It is not difficult to guess whom Chaika was intending to help with his statement. For some reason, he recommended that the Transportation Ministry under Igor Levitin be entrusted

with the task of protecting national security. Levitin also heads the boards of directors of Sheremetyevo Airport and the national airline Aeroflot — Domodedovo's main business competitors. As the head of the board of directors for Sheremetyevo Airport, Levitin has a clear conflict of interest with Domodedovo. In fact, charging Levitin to deal with Domodedovo is like asking Bill Gates to sort things out over at Apple.

Unfortunately, the history of Domodedovo illustrates two problems with Russian business. The first was described well by Rupert Murdoch some time ago. Discussing the planned sale of his Russian businesses, Murdoch said, "The more I read about investments in Russia, the less I like the feel of it. The more successful we'd have been, the more vulnerable we'd be to having it stolen from us. Better we sell now." Domodedovo is a challenge to the system simply because it is successful. Every square meter of new terminal construction for Domodedovo costs $2,200, whereas Sheremetyevo pays $7,000 per square meter for the same work. Obviously, with that level of inefficiency — if not plain thievery — the only way that state-owned Sheremetyevo can survive is by putting privately held Domodedovo out of business. The second problem with Russian business is explained by the maxim that no subsystem can function properly in a dysfunctional state. If that subsystem tries to compensate for the ineffectiveness of the larger system, it will collapse and die from overburden.

Domodedovo's owners might manage the most successful and fastest-growing airport in the country, but they cannot replace the state-owned energy companies that provide them with electricity or take over the job of the Federal Security Service in combating terrorism. Therefore, when the airport was beset by blackouts and a terrorist attack, Levitin's Transportation Ministry blamed Domodedovo owners.

It's ironic that President Dmitry Medvedev has said Russia needs more foreign investment. Chaika is considered his close associate. And Medvedev recently asked all ministers — including Levitin — to step down from their board posts in state companies. Then just before the largest and most successful Russian airport placed its shares with foreign funds, Medvedev's allies openly and brazenly pulled the rug out from under it in such a way as to benefit Levitin. It is difficult to imagine that any scenario could better illustrate Medvedev's role in the pack of baboons commonly known as Kremlin officials.

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