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State Says Domodedovo Too Global

By Howard Amos

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A toilet maintenance vehicle at work at Domodedovo. The airport was criticized for offshore ownership, although that is typical for Russian companies. **Vladimir Filonov**

It has been struck by a suicide bomber, lashed by ice storms and suffered a plane crash in the last six months, but accusations leveled against Domodedovo this week could have more ominous consequences for the country's most successful airport.

A verbal war began April 30 when the Prosecutor General's Office released a statement saying that foreign companies registered offshore were managing Domodedovo airport.

"A system has been created to hide the real owners and those who are making the management decisions in Domodedovo Airport — removing them from the jurisdiction of the Russian Federation and obstructing the Russian authorities from effectively exercising their control and supervision functions and from insisting that the organizations observe federal legislation."

The investigation of which the statement was a result had been ordered by President Dmitry

Medvedev.

Unlike the country's second and third most popular airports, Sheremetyevo and Vnukovo, Domodedovo is privately run. The umbrella management company, East Line Group, does have a complicated — and opaque — ownership structure, including offshore companies, but a spokesperson for the airport said Wednesday that this is not in violation of any Russian laws.

Although there is no paper trail to the beneficial owners, it is widely understood that businessman Dmitry Kamenshik, chairman of Domodedovo's board of directors, and Valery Kogan, director of the airport's supervisory board — the only company figures profiled on the Domodedovo web site — are in charge and reap the financial rewards.

"I don't think the president or the General Prosecutor's Office have any doubts about how things work," said Alexei Yekimovsky, editor of the Business Directory of Russian Transport.

Kogan, 60, was 47th on Forbes' April 2011 list of the richest Russians, with a personal fortune of $2 billion. Kamenshik, 43, was in 86th place with $1.1 billion. Forbes lists both of them as deriving their money from Domodedovo Airport.

Convoluted holding structures with multiple companies registered in different jurisdictions are common in Russian business — making it difficult to understand in what bank account, and under whose name, the money is piling up.

"Russian businessmen hide behind several corporate layers," said Alexander Nadmitov, a partner at law firm Nadmitov & Partners. "For example, a Cyprus company owns a Russian company, which is owned by another company, which is owned by someone else."

But there is a legal framework for disclosure, and if prosecutors have a court order, a company has to reveal its ownership structure, even if it is domiciled abroad.

Just because ownership is exercised through foreign-registered companies does not automatically mean that its ultimate beneficiaries are non-Russian citizens.

The Audit Chamber corroborated the statement of the General Procurator's Office on Tuesday, noting that 322 pieces of property at Domodedovo were owned by the Cyprus-registered company Hacienda Investments. A Domodedovo spokesperson confirmed these facts, but said again that there was nothing illegal about it.

The idea that the administrative company of Domodedovo must not be owned by a foreign company "has never been the subject of legislative restrictions," Yekimovsky said.

He added that the runways of Domodedovo — which might be required by the Emergency Situations Ministry or the military in a national emergency — are leased by Domodedovo from the state.

The General Prosecutor's Office's statement, however, also suggested that the impenetrable holding structure behind Domodedovo Airport could contravene Russian national security.

"Considering the strategic significance of Domodedovo Airport for guaranteeing

the country's defense and the safety of the state, the current situation is unacceptable," it said.

Though Domodedovo's management does not fall under the list of industries or activities that are defined by law as strategic state assets, this does not necessarily make the airport invulnerable.

Russian search engine Yandex, which is domiciled in the Netherlands and on the verge of an initial public offering, warned investors this week about the risk of takeover by oligarchs and all the negative consequences that would entail.

Medvedev has spoken out about the desirability of having a national search engine.

Domodedovo fought off what was widely understood as an attempt at nationalization in 2008 and hired JPMorgan, Goldman Sachs and Morgan Stanley last month to manage an IPO scheduled for 2011.

Yekimovsky said the General Prosecutor's Office's announcement should also be seen against the background of recent moves to consolidate Moscow's airports under one management company.

At present, only Sheremetyevo and Vnukovo are under consideration for the amalgamation, which Prime Minister Vladimir Putin said in March would create "significant synergies."

More than 22 million passengers passed through Domodedovo in 2010. The airport is served by 77 airlines.

Although the statement by the Prosecutor General's Office singled out Domodedovo, in fact there are many large Russian-interest companies in whom foreign-registered, offshore companies have stakes.

Gunvor, the secretive energy trading firm through which large quantities of Russian oil flows to international buyers, is registered in Geneva.

The country's biggest oil company, state-owned Rosneft, has offshore companies among its shareholders, and the country's third biggest oil company, TNK-BP, is held by a Cyprus-registered company. Telecoms giant VimpelCom is registered in the Netherlands.

One reason why Russian businessmen are so keen to own companies through foreign registered entities is political and economic instability within Russia.

"The use of non-Russian companies for doing business in Russia is caused primarily by the high level of criminal captures of Russian companies by raiders," said Natalya Morozova, a managing partner at Vinson & Elkins law firm in Moscow.

Nadmitov, however, said the main driver was tax avoidance.

A Cyprus shareholder pays a 5 percent dividend tax, instead of 9 in Russia, because of a bilateral tax regime between Cyprus and Russia, he added.

Vsevolod Miller, a lawyer at Ukov, Khrenov & Partners, saw the reason why Russian businessmen use foreign-registered companies as one element of a larger and very obvious picture.

"Why do people register and hold most of their money abroad, send their children to London and buy homes in the south of France?" he asked rhetorically.

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