

Privatization Promised, But Little Understood

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A light show dazzles with multicolored lights illuminating the sails of the historical Kruzenshtern ship in town for the St. Petersburg International Economic Forum

ST. PETERSBURG — Privatization was a hot topic at the St. Petersburg International Economic Forum last week with President Vladimir Putin devoting a significant part of his keynote address to the issue and a new government decree updating existing plans.

But confusion over the government's intentions reigned.

Ministers gave different signals about the ambitious program of sell-offs slated to continue through 2018. The heads of some of Russia's biggest companies, with assets due to be offered to the market, openly expressed their misgivings.

Despite having been an official priority for years, no pure privatizations of major state companies have yet taken place — prompting suggestions that there is entrenched opposition

from sections of Russia's ruling elite.

Putin appeared to try and put some of the doubts to rest in his Thursday speech to an audience of foreign investors, top businessmen, diplomats and politicians.

"State capitalism is not our aim," Putin said. "The federal property privatization plan has been confirmed and will be carried out."

The clear message was, however, hedged with a number of qualifications. Putin said the new wave of privatizations should have nothing in common with the notoriously corrupt privatizations of the 1990s and should not generate private monopolies.

Selling off state assets at excessively cheap prices because of unfavorable market conditions is also not an option. In a pre-election article, Putin wrote that to do this would be "stupid."

Many express skepticism that an outright rejection of state capitalism, the ideology of government control of a country's economy, is actually in the cards.

In his doctoral thesis about strategic planning in the mining sector published in the 1990s, Putin argued that state-owned "national champions" could eventually rival Western international giants — and under Putin's 12 years at the top of Russian politics, the power of the state has grown in industries from energy to banking.

According to the plan confirmed by Prime Minister Dmitry Medvedev and the Cabinet earlier this month and updated in a decree published Friday, within 18 months Russia "plans to realize the privatization" of 50 percent of shipping giant Sovkomflot, 7.58 percent of Sberbank, 25.2 percent of VTB, all of grain trader United Grain Company, 49.9 percent of Rosagroleasing, 10 percent of nanotechnology holding Rusnano and 25 percent of Russian Railways.

By the end of 2016, the state should have exited fully from national firms including hydroelectric giant RusHydro, Sheremetyevo Airport, Aeroflot and the country's biggest oil producer, Rosneft.

Just a day after Putin's speech, however, top businessmen were already expressing their doubts.

"Honestly speaking, I don't yet understand this opportunity to directly privatize shares of Russian Railways," said company head Vladimir Yakunin, Interfax reported. He added that the scheduled privatization of 25 percent, which is planned to be completed by 2013, was "absolutely unrealistic" and would only create a "headache" for the company.

The plans were "very ambitious," warned Andrei Kostin, head of VTB, Russia's second largest bank, Bloomberg reported.

The price at which the state will allow sell-offs is also key. Russia's biggest lender, Sberbank, has long been expected to be first under the hammer — but its sale has been repeatedly delayed because of market turbulence.

The state's price expectations are "too high," said the head of one Moscow brokerage who

requested anonymity to speak freely. And the government will be unlikely to find enough investors either at home or abroad unless they are more realistic, he added.

Ministers signaled in St. Petersburg that the slipping oil price may make revenue from privatizations even more significant for the government. There is a target to earn \$10 billion from asset sales this year.

"We are looking at [privatization] as a source for covering the federal budget deficit," Deputy Prime Minister Igor Shuvalov said in an interview with *Rossia 24* during the forum.

Shuvalov also said the state-owned National Welfare Fund, which holds oil wealth as a future crisis-fighting tool, could take part in privatization as an investor.

But he had apparently not consulted with Finance Minister Anton Siluanov. "I need to talk with [Shuvalov]," Siluanov said when asked about the initiative, *Interfax* reported. "It's not very clear why it's necessary for the state to buy from the state."

Others were even more outspoken. "It's a nightmare, it's pseudo-privatization," said former Finance Minister Alexei Kudrin when asked about the role of the National Welfare Fund, *RIA-Novosti* reported.

Shuvalov's words are the second major indication that government vehicles could take part in "privatizations" of state-controlled companies.

According to a decree signed by Putin last month, state-owned Rosneftgaz, which already controls 75.16 percent of Rosneft and 10.74 percent of Gazprom, has been given powers to take part in sell-offs of major companies in the energy industry.

Rosneftgaz is chaired by Igor Sechin, a long-time associate of Putin who is known to be opposed to some of the sweeping privatizations championed by Kremlin liberals.

Designating companies as "strategic" is another way to circumscribe the impact of privatization. On May 21, Putin signed a decree including RusHydro, the Federal Grid Company, Sistema, MRSK and Rosneft on a list of strategic companies.

Head of Sberbank and former Economic Development Minister German Gref, however, warned Thursday during a breakfast with government ministers and foreign investors that this tactic was being taken too far.

"You could call any little shop on the way to the White House 'strategic' to stop it from being privatized," he said. "Where there is the word 'strategic,' there you find strategic commercial interests."

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