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Cabinet Scales Back Privatization Plan

By Anatoly Medetsky

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The government on Thursday further rolled back its plans to sell state assets.

Under the new schedule, it will still control companies like oil giant Rosneft and the country's second-largest bank, VTB, at the end of 2016.

Ministers often pinned the policy change on the low current values of state assets during the Cabinet discussion that led up to the decision.

Medvedev bristled at the retreat even as he endorsed the move.

Conceding that past privatization plans had never been fully executed, he said the change of plans, in part, stemmed from the softness of the market.

But there is another reason, he added.

"Let's be forthright about this, it's also been linked with the lobbying energy of individual ministries and officials, who very often run themselves ragged stopping a sale that would take

away their control over a set of assets," he said. "This isn't right ... We are not a socialist or command economy."

First Deputy Prime Minister Igor Shuvalov first announced the privatization drive in the fall of 2010 when the country was still reeling from the economic downturn. Some sales went through, but many faltered.

The latest plan, approved Thursday, calls for sales worth 1.7 trillion rubles ($53 billion) over three years from 2014 through 2016, Economic Development Minister Alexei Ulyukayev said.

The federal budget is set to soak up 630 billion rubles of the proceeds while the rest should stay with the companies, he said.

Shuvalov defended the plan as realistic.

"The document ... isn't some plan that is a wish list of the Cabinet," he said. "It's a plan for work."

One of the biggest assets for sale is Rosneft, where state ownership is set to be 50 percent plus one share by the end of 2016, down from 69.5 percent now.

An earlier plan from June last year envisaged a complete withdrawal from Rosneft by the end of 2015.

In fact, the government moved in the opposite direction by allowing Rosneft to gobble up its private rival TNK-BP in one of the largest global acquisitions, worth $55 billion.

VTB is another company that the state now is not ready to cede entirely to private hands. The bank will offer the market another 10 percent of its stock over three years and stay with 50 percent plus one share in government possession.

Last year, the Cabinet intended to pull out of the lender by the end of 2015.

Some other assets, such as electricity generator RusHydro and oil producer Zarubezhneft will similarly remain state-controlled, in a change from the previous plan.

Economist Sergei Alexashenko dismissed the market situation as a reason for backtracking on privatizations.

"We believe that it is an excuse, a consolidated position of those who don't want privatization," Alexashenko, a professor at the Higher School of Economics, said in comments while attending the Cabinet meeting.

He pointed out that the U.S. government had been able to sell its stake in insurer American International Group last year and was on track to wind down its involvement in General Motors — the assets it got in exchange for bailouts during the crisis.

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