

Russia Signals End to Crimea Property Grab, But Investors Unlikely to Bite

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Many of the most valuable assets in Crimea — from energy companies to mobile operators — have been taken over by local officials.

The Moscow-appointed head of the Crimea region, annexed from Ukraine by Russia last year, has called time on much-criticized "nationalizations" across the peninsula even as analysts warn that the questionable legality of the seizures will have damaging long-term consequences.

"From March 1 we will cancel the process of nationalization," Sergei Aksyonov said in an interview with state-owned television channel Russia-24 late last week.

Many of the most valuable assets in Crimea — from energy companies to mobile operators — have been taken over by local officials in the eleven months since the territory was seized by Russian soldiers. The process is characterized by some as a redistribution of wealth to those politically loyal to Moscow.

The chaotic, and sometimes violent, process has further worsened the business climate in Crimea that is choked by European Union and U.S. sanctions and ravaged by high inflation and supply difficulties.

"The new authorities are taking property and giving it to businessmen who are close to them," said Sergei Mitrokhin, the leader of Russia's liberal Yabloko Party.

Unidentified Raiders

Unidentified men stormed the Crimean offices of Ukrtelecom, the region's major fixed-line telephone operator owned by Ukrainian tycoon Rinat Akhmetov, in the early hours of Feb. 10.

"It was seized physically, seized by people unknown to us. Both arterial cables connecting the peninsula with the mainland were physically switched off," the head of communications for System Capital Management, Natalya Yemchenko, wrote on Facebook on Feb. 10. System Capital Management is the investment vehicle, owned by Akhmetov, which controls Ukrtelecom.

A day later, the Crimean parliament passed a motion nationalizing Ukrtelecom.

The story of Ukrtelecom is one that has been repeated across Crimea.

The biggest firms brought under state control include energy companies Chernomorneftegaz in March last year and Krymenergo in January. But the seizures have also included banks, farms, shipyards and even a film studio.

There are no reliable statistics for the amount of properties seized, but their total value is likely to run into tens of billions of rubles. In December, Ukraine's Justice Ministry said 4,000 enterprises, organizations and agencies had been affected, the AP news agency reported.

Silent Ukrainian Owners

The seizures began in earnest in August after an act passed by the Crimean parliament gave regional authorities the power to take over private property without even a court order.

Opponents say the law is in violation of the Russian Constitution and simply legalizes criminal expropriations.

"They can nationalize anything ... any person can at any time can be deprived of property," Yabloko's Mitrokhin, who has publicly criticized the law, said by telephone.

Many of those affected have been Ukrainian magnates living outside Crimea since the territory's annexation — including billionaires like Akhmetov, energy middleman Dmitry Firtash and the current governor of Ukraine's Dnieperpetrovsk Region, Ihor Kolomoisky.

No tycoon with money in Ukraine can dispute the seizures in a Russian court because to do so would be to recognize the legitimacy of Moscow's rule in Crimea. Anti-Moscow sentiment is high in Kiev, where the government is focused on battling Russian-backed rebels in the east of the former Soviet country.

"As soon as they go to court in Russia ... they will experience huge problems in Ukraine," said Eduard Zhuravlyov, chief editor of the KrymBusinessConsulting news agency by telephone from regional capital Simferopol on Monday.

Coming Privatization?

In his television interview last week, Aksyonov said stakes in nationalized Ukrtelecom might be sold to private investors in due course, but that a majority holding would be kept by the state.

Other nationalized assets look like they will be sold off.

Companies seized from vociferously anti-Putin Kolomoisky will be sold to raise money to compensate Crimean depositors with money in Ukrainian accounts that were frozen after the annexation, Aksyonov said Friday.

Branches of Kolomoisky's PrivatBank and pieces of real estate owned by him were seized by the Crimean authorities last year. Putting Kolomoisky's assets to auction should raise up to 5 billion rubles (\$79 million), according to Aksyonov.

A full-scale program of privatization might get underway as the Crimean authorities seek to raise cash and reward local businessmen for their loyalty, analysts said.

Dependent on Moscow

Nationalizations are driven by a battle to control Crimea's resources, according to Natalya Zubarevich, director of the regional program of the Independent Institute for Social Policy in Moscow.

Of Crimea's 158 billion ruble (\$2.5 billion) budget in 2014, just 1 percent consisted of profit taxes while 80 percent was federal subsidies, Zubarevich said. Only the North Caucasus regions of Chechnya and Ingushetia, which both suffer from a low-level Islamic insurgency, receive bigger handouts from Moscow.

Investors — both Russian and foreign — are "actively interested" in Crimea, according to Aksyonov, a former cigarette trader with reported criminal ties who spent years in fringe Russian nationalist movements before being swept to power during the Kremlin annexation.

As well as state seizures, investors in Crimea have to deal with electricity supply issues, limitations imposed by Western sanctions, corruption, and severe transport problems: The only direct link with Russia is by ferry across the Kerch Strait.

"Foreign investors will not come to Crimea and Russian investors are scared," said Zubarevich. "There will not be private investors in Crimea for a very long time."

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