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Foreign Publishers Quit Russia Over Media Ownership Law

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Edipresse believes that a 20 percent stake does not make the full-scale development of the company in Russia worth its while.

Major foreign media holdings are leaving the Russian market due to legislation passed last year limiting foreign ownership of Russian media.

Switzerland's publishing group Edipresse, which produces the magazines Mother and Baby, Landscape Design and Atelier here, has sold its Russian assets — 100 percent of the company Edipresse-Konliga — to its general director Maxim Zimin.

The deal was concluded in mid-July, Zimin told The Moscow Times on Tuesday. He declined to reveal the exact value of the deal but said that "we are talking about several hundred million rubles."

The decision was triggered by the approaching deadline for compliance with the media ownership law, which limits the stake of foreign owners in Russian media organizations to 20 percent.

The law comes into force on Jan. 1, 2016. Media companies currently owned by foreigners will have an additional year — until Feb. 1, 2017 — to change their ownership structure in line with the new legislation.

Edipresse believes that a 20 percent stake does not make the full-scale development of the company in Russia worth its while, Zimin said.

The Swiss concern is not the only foreign publishing company which has opted to withdraw from Russia.

The German publishing group Axel Springer, which controls Forbes, OK! and GEO magazines, is also selling its Russian assets, the RBC newspaper reported on Saturday, citing two unidentified managers of major publishing companies and a federal official.

An 80 percent stake will be bought by Alexander Fedotov, the owner of Artcom Media Group, which publishes L'Officiel and SNC magazines, while the other 20 percent could be taken by the company's CEO, Regina von Flemming, the sources told RBC, adding that the deal is in its final stages.

No spokesperson for Axel Springer was available to comment.

The legislation limiting the ownership by foreign companies to 20 percent of Russian media holdings was signed by President Vladimir Putin in October last year. Previously, foreigners could own up to a 50 percent stake in Russian television and radio, while there were no restrictions for print media and online editions.

The penalty for violating the new law is the closing down of the media outlet in question. The law also bans foreigners, as well as people with dual citizenship, from founding media outlets in Russia.

According to lawmakers, the new restrictions, which were drawn up amid Russia's confrontation with the West over the Ukraine crisis, are aimed at protecting Russians from harmful Western influence.

But along with media covering political or social issues, a large number of entertainment television channels and fashion magazines will also fall under the restrictions.

The law will affect TV companies CTC Media and Walt Disney, and most of the publishing houses in Russia, including Sanoma Independent Media, Conde Nast, Hearst Shkulev Media, Hubert Burda Media and Axel Springer.

The legislation was widely criticized by media industry leaders, and caused deep concern on the market. In February, the managers of foreign media companies operating in Russia sent a letter to Putin asking him to postpone the application of the law until 2017, but their plea fell on deaf ears, RBC reported.

Media companies with long-term plans to operate in Russia are seeking ways to adapt to the law, and several companies have already changed their ownership structure in line with the legislation.

U.S. media giant Discovery Communications set up a joint venture with its Russian partner, the major private media holding National Media Group, which received an 80 percent stake in the new company, National Media Group said in a statement last month.

Another company restructuring its ownership model in order to stay on the Russian market is the largest independent media company in Russia, CTC Media, 75 percent of whose assets are currently owned by foreign companies.

CTC Media's shareholders are now negotiating with Russian television holding UTV on the purchase of 75 percent of its assets, CTC Media's spokesman Igor Ivanov told The Moscow Times on Tuesday.

But experts warn that foreign media companies will continue to leave the Russian market because of the new legislation, and that even companies with plans to stay on the Russian market will have to withdraw if they don't manage to sell 80 percent of their assets.

Print media is not the most profitable segment, so some publishers, especially smaller ones, could face difficulties in finding buyers for part of their company, Zimin said.

They may therefore have to sell the assets at a very low price or simply close down, he added.

Yelena Shitikova, managing director of Russia's Guild of Press Publishers, a lobby group, said that although the new law complicates the activity of publishing houses, Russia won't see foreign media companies flee the market en masse.

Russia is a profitable and interesting market, and companies will accept the new law and adapt to changes in order to continue doing business here, Shitikova told The Moscow Times on Tuesday.

In their letter to Putin, the managers of foreign publishing houses in Russia said it was the wrong time for the introduction of the new restrictions, according to RBC. The media is currently seeing a sharp slump in advertising revenues.

The advertising market totaled 138 billion rubles ($2 billion) in the first half of 2015, 16 percent down compared to the same period last year, according to a report by the Association of Communication Agencies of Russia.

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