

Privatisation Russian style, or how to sell without handing over

Iwona Wiśniewska

During a meeting chaired by Prime Minister Vladimir Putin on 20 October, the government's plan for privatisation over the period 2011-2015 was confirmed. Over five years shares in around 900 firms are to be privatised, including companies in the petroleum, finance and transport sectors, which are very important for the Russian economy. In most of the cases, minority shareholdings have been designated for privatisation. The government estimates that it will make around US\$60bn from the privatisation, most of which is to be assigned to financing the budget deficit.

Despite this ambitious privatisation plan, it does not seem that giving minority shareholdings to private investors will significantly limit the state's influence on the Russian economy. This is because the main reason for undertaking the privatisation is to support public finances, while simultaneously keeping financial assets in stabilisation funds. These may be used if a crisis situation reoccurs, or if there is a need to calm public feelings before the approaching elections to parliament (2011) and for president (2012).

The privatisation plan

The confirmed 5-year privatisation plan is a return to the process begun in 2006 (the sale of 15% of Rosneft alone brought Russia US\$11bn), and which was suspended because of the economic crisis in 2009. According to estimates, this year's income from selling state shares should exceed US\$3bn.

The confirmed list of businesses to be privatised includes the oil company Rosneft (up to 15% of whose shares will be put up for sale); the hydroelectric plants owner Rushydro (8%); the biggest bank in Russia, Sberbank (9.3%); the cargo rail carrier PGK (75%), and the United Grain Company (100%) (see Appendix). The government has planned for the sale of the state's holdings to bring in around US\$10bn for it in 2011, around US\$9bn in 2012, over US\$10bn in 2013, and the income predicted for 2014-5 should reach around US\$30bn. Discussions on the privatisation plan have lasted over a year, as a consequence of which the list of businesses is much longer than first assumed (last summer, the income from privatisations was estimated at around US\$35bn).

The list of privatised businesses does not, despite suggestions from the Ministry of Finance, include Transneft (the owner of Russia's pipelines) or Zarubezhneft (an energy company which operates abroad). Discussions on shrinking the state's holdings in the Russian Railways or the national air carrier Aeroflot are still ongoing. Furthermore, the government

has not said how the privatisation will be conducted; so it is not known which packages of shares will be offered to strategic investors, and which will be sold on the open market.

Motives for privatisation

The global economic crisis hit the Russian economy hard, and led to a significant shrinkage of Russia's financial resources; currently around US\$130bn are held in the stabilisation funds, as opposed to the sum of around US\$200bn in autumn 2008. Meanwhile, the Russian government wants at any cost to maintain, or even increase its budget spending (above all on security and defence, as well as on social policy). As a consequence, in 2009 a budget deficit once again appeared in Russia (for the first time in ten years) and is planned to be maintained for the next five years (at a level of around US\$60bn annually in the years 2011 to 2013). Privatisation, together with foreign loans (US\$4.5bn in 2011) and stabilisation funds, has become one of the most important sources for financing this deficit. The income from privatisation is even more important, as it allows at least part of the money for the stabilisation funds to be retained, which will keep the current government financially secure during the difficult election years of 2011 and 2012.

Moreover, the economic crisis has demonstrated to the Russian government that excessive state ownership is not good for the budget. This is because the state businesses were the main beneficiaries of the government's anti-crisis programme; support for them was not conditional on a restructuring programme, which would have opened the door to these businesses possibly becoming genuinely competitive in the future.

Consequences of the privatisation

As a consequence of the planned privatisation, the Russian ruling elite will not lose control over the Russian economy (the rights of minority shareholders are very limited in Russia). It must be remembered that the state's influence on Russia's economic processes results not only from state ownership (in 2009, the Ministry of Finance estimated the state's share in the economy at around 50%, compared to around 30% in 2000), but also from the centralisation of power in Russia, the expansion of administrative apparatus, and the subjection of the judiciary to the ruling elite.

Privatisation will undoubtedly be used by the Russian authorities to authenticate their slogans about modernisation, which have been heard especially intensively in the last two years on the international stage. This will provide another opportunity to attract foreign capital and perhaps foreign technology to Russia.

The manner of privatisation will undoubtedly be of great importance. On the one hand, allowing foreign investors into strategic Russian businesses will be an opportunity for Russian firms to gain access to foreign assets and technologies (on the basis of exchanges, which Russia has done many times in the past). On the other hand, the privatisation of attractive businesses may be used by persons linked to the current ruling elite to take control; for example, interest in taking control over the rail cargo carrier has been expressed by Gennady Timchenko, whose business in the energy branch (which is under the special control of the Russian government) has developed dynamically since Vladimir Putin came to

power.

Appendix

Oil company **Rosneft** – up to 15% (the state's holding will fall to 60%) in the period 2012-15;
Rushydro (owner of hydroelectric plants) – 8% (61.9%) by 2013;
the **Federal Grid Company**, owner of the electric power grid – 4.11% (up to 75%) by 2013;
PGK, the First Rail Company (rail cargo carrier) – 75% (25%);
Sberbank (biggest bank in Russia) – 9.3% (51%);
Vneshtorgbank (VTB) – 20 to 25% (60.5 to 65.5%);
Rosselkhozbank (agricultural bank) – 25% (75%);
the **United Grain Company** (owner of grain silos and exporter of grain, among others) – 100%;
Sovkomflot (ship owner) – 50% less one share (up to 50% plus one share) by 2013.