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INDEPENDENT NEWS FROM RUSSIA

Talk of Aeroflot in $45Bln Sell-Off

By Howard Amos

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Finance Minister Alexei Kudrin said Monday that the government hoped to raise $45 billion in a second round of privatization that could include stakes in Aeroflot.

A three-year, $30 billion privatization is already under way, and the figure mentioned by Kudrin means that the government could end up raising a total of $75 billion.

Kudrin spoke at a Renaissance Capital conference packed with foreign and Russian investors, some of whom had heard President Dmitry Medvedev promise to expand the government's privatization program at the St. Petersburg International Economic Forum on June 17.

"In the next three to five years, [the state] should leave practically all key companies in which it currently has a major stake," Kudrin said.

"I am talking about the financial sector, the oil sector, communications and transportation companies starting with Sovcomflot, Aeroflot and others," he said.

He said the amount generated by the second round of sell-offs will be about 25 percent to 50 percent more than the $30 billion expected from the first round, which includes assets in 1,300 companies from Russian Railways and international shipping firm Sovcomflot to oil giant Rosneft, Interfax reported.

The government kicked off the privatization program in February with a $3.3 billion sale of 10 percent of VTB. A 7.6 percent stake in Sberbank is slated to be privatized in September.

Aeroflot had not previously been included in the list of companies heading for privatization. The state owns 51.17 percent of the airline, while the Central Bank has another 11.8 percent.

Investors reacted positively to the focus on reducing the state's presence in the economy, but some voiced concern about whether the program would be carried through within the announced time frame.

Jacob Grapengiesser, a partner at asset management company East Capital, told The Moscow Times that although there was a "very positive reaction" among investors, "unfortunately we have heard many times about privatization. ... They need to go ahead and put those stakes on the market."

"For investors, seeing is believing," he added.

Sergei Guriev, rector of the New Economic School, said privatization would be a "game-changer" because it would represent "an irreversible step forward."

During his keynote speech to the St. Petersburg forum, Medvedev described the government's privatization agenda as "too modest" and ordered it to be adjusted by Aug. 1.

Medvedev's economic adviser, Arkady Dvorkovich, speaking after Kudrin on Monday, told delegates that "quicker, more aggressive" privatization was needed. Speaking to reporters on the fringes of the conference, Dvorkovich added that Rosneft and VTB were potential candidates to have an increased share of their state-owned stock put up for privatization, Interfax reported.

Dvorkovich said June 17 that the state might relinquish a blocking stake in Rosneft, where it currently controls more than 75 percent.

As well as offering lucrative shares to international investors, Kudrin stressed that a successful privatization process should "help improve corporate governance, ... improve transparency and add private investment."

Elena Shaftan, director at Jupiter Asset Management, agreed that the government's talk about potentially selling majority stakes was positive above all because it "is going to push corporate governance."

Some investors said the price of oil was still the most significant factor when looking at Russia as a destination for capital.

Guriev said that despite attempts at economic diversification, by some measures Russia's dependence on oil was actually increasing. Five years ago, he said, an oil price of $50 was needed to balance the country's budget, whereas in 2011 the figure is $105 and is expected to rise to $120 next year.

A decision by the International Energy Agency on Thursday to release 60 million barrels of oil from its strategic reserves in the face of supply concerns contributed to a sharp drop in the price of oil last week. Benchmark Brent was trading at around $105 on Monday.

A future fall in the oil price to $90 to $100 a barrel is unlikely to have a negative long-term impact, said Charles Robertson, global chief economist at Renaissance Capital. But other market events including any slowdown in the Chinese economy precipitating a drop in commodity prices would have serious consequences for Russia, he said.

Concerns about the volatility of oil even appeared to trump investor jitters over political uncertainty about the outcome of the presidential election next year.

Both Kudrin and Dvorkovich referred to politics as an active deterrent for those looking at the Russian market.

"Today everybody is very attentively counting the political risks," Kudrin said.

But there seemed to be little anticipation among investors that the election would change anything.

"There are no surprises in politics," said one investor, who requested anonymity citing the sensitivity of the subject.

The popular vote was not important, he added, referring to the power wielded by Prime Minister Vladimir Putin. "There is only one elector in Russia," he said.

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