

# Putin Targets Corruption at Gazprom

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President Putin pausing during his address to businesspeople at the VTB investment conference Tuesday. **Vladimir Filonov**

Signaling the start of a long-awaited overhaul at Gazprom, President Vladimir Putin on Tuesday called for corruption to be eliminated at the state-controlled gas giant and said its business model should be improved.

Gazprom has been criticized for years by minority investors who believe their lucrative shares could provide even bigger dividends through the elimination of inefficiencies and corruption at the company.

The president also said other energy companies should be allowed to transport gas through the network of export pipelines now monopolized by Gazprom.

"We hear claims more and more frequently about how the company's business is developing and how there's corruption there. There probably is," Putin said at VTB Capital's annual conference in Moscow.

"The police must catch and imprison" anyone involved in graft, he said.

He also called for improvements to the way the company works, without offering details. He criticized the idea of spinning off gas transportation as a separate business, which is mandated by Europe's controversial "third energy package" to liberalize the market.

"We shouldn't act like our colleagues in Europe... separating production, transportation and distribution," Putin said during a Q&A session at the forum.

Gas transportation is unlikely to survive as a separate business because it lives on revenues from extraction, he said.

He strongly defended Gazprom in a European investigation into whether it has violated antitrust legislation, saying the company has about 27 percent of the European market, compared with the 29 percent cornered by Norwegian energy producers.

The European Commission opened a new phase in the long-running anti-monopoly investigation into Gazprom on Sept. 3, following surprise raids on company subsidiaries in 2011.

Putin also urged European regulators to cut taxes on gas supplies rather than ask Gazprom to reduce its prices. He said 60 percent of the cost to end users came from taxes.

Also at the forum, government officials and private investors called for a change to the country's economic growth model, saying it can no longer rely on oil and gas revenues to spur it along.

Maintaining high economic growth is critical to fulfill political goals, said Economic Development Minister Andrei Belousov. With an annual growth of 2 percent, "we simply could not balance our social obligations with our resource base. ... It would be impossible, impossible!" he said.

The economy grew by just over 4 percent in 2011.

Putin said Tuesday that the growth rate was likely to be repeated this year.

"Our economy continues to grow," he said. "Experts say that these dynamics will continue on average over the next three years."

Not all economists agree with the president, however. On the back of the poor state of the industrial sector and falling consumer demand, growth slowed to its weakest pace in two years during the first two months of the third quarter of 2012, Capital Economics wrote in a September report. The research consultancy firm predicts 3.8 percent growth this year.

But growth of 4 to 4.5 percent should be the threshold, Belousov said. "It is the minimum level that allows us to balance social obligations with the opportunities provided by our resources," he said.

Further growth is only possible if sufficient investment is attracted to modernize and expand the manufacturing sector, Putin said, adding that the government hopes to win the trust

of both foreign and local investors.

But Russia has yet to improve its "awful investment climate," Belousov said. One critical step, he said, would be to introduce road maps outlining the measures needed to solve the problem.

Speakers at the conference touched upon subjects traditionally wheeled out to impress foreign investors, including the merger of Moscow's two stock exchanges, the MICEX and RTS; and the creation of a central depository.

But there was one newer topic that was given a public urgency by both Putin and Central Bank Deputy Chairman Alexei Ulyukayev — the consolidation of financial regulators.

"I suggest that the banking and investment communities get involved in the discussion," Putin said. "The question about the cardinal improvement of our regulation system cannot be put off any longer, and a decision should not be dragged out."

The formation of a "super regulator" has been discussed for some time but was reinvigorated last month by Deputy Prime Minister Igor Shuvalov, who oversees regulation in the government.

Putin predicted that the financial markets watchdog, the Federal Service for Financial Markets, would probably be merged into a unified regulator based on the foundation of the Central Bank.

A working group with representatives from the Finance Ministry, the Economic Development Ministry and the Central Bank had been formed to address the issue, Finance Minister Anton Siluanov told reporters on the sidelines of the conference. No final decision has been made, he said.

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