

Potinin Takes a Swipe at Government

By Simon Shuster

Staff Writer

In a rare rebuke, billionaire Vladimir Potinin and other business leaders accused the government Tuesday of stifling free enterprise and hurting efficiency.

Potinin -- one of a shrinking class of oligarchs who have kept their business empires in private hands amid growing state interference -- told an investment conference that government officials tend to hurt the effectiveness of any board of directors they join.

"The level of effectiveness in making decisions, the level of corporate governance, the attention to details, the ability to carry out the decisions of the board effectively -- all become lower in such cases," Potinin said at the conference, held a stone's throw from the Kremlin.

The problem of state influence on company boards affects not only so-called national champions, but "any private firm with board members ... who make decisions according to [state] directives," said Potinin, chairman of the Interros holding and head of the National Council on Corporate Governance.

"The board decisions in these cases become politicized," he said. "The problem is such that the minority shareholders feel less protected."

Due to a shortage of time, one question for Potinin was allowed from the audience, and an apparently incredulous Western businessman asked the billionaire if he had really just called for boards of directors to have greater independence from the state.

Potinin confirmed that he had, but added that he was not accusing the state of some "vulgar kind of violations of corporate governance standards, such as failing to make information about the company available to minority stakeholders."

Outside the conference, an independent board member from one of the country's largest electricity generating companies indicated that Potinin's comments had struck a chord.

The official, who asked not to be identified, citing fear of reprisal, said he had asked repeatedly to review the company's investment program, but the general director said this was a "corporate secret" and denied him this right, as did officials from Unified Energy Systems, the state-controlled utility that owns the generating company.

Andrei Kazmin, head of state-controlled Sberbank, told investors he did not agree with Potinin.

"For all these years I have worked at Sberbank, I do not remember a time in which we gave some politically motivated loans or made some politically motivated decision that somehow contradicted the needs of our minority shareholders," Kazmin said.

"Of course we answer to our majority shareholders, to representatives of the government who hold the majority on our board," he added. "They have very demanding needs, above and beyond our quarterly reports, but only in that sense can the state's role be called uncomfortable."

Sberbank is controlled by the Central Bank, the banking sector's only regulating body, and has often faced criticism for the conflict of interest that seems inherent to this role.

During his speech, Kazmin explained that Sberbank had ditched a pilot credit card project because it preferred a more "conservative credit policy." Though it is Russia's largest lender, Sberbank was one of the last to even consider issuing credit cards, which have been one of the most lucrative products in the retail banking market. Analysts have criticized the decision as symbolic of Sberbank's thick-headed approach to business.

Yevgeny Chichvarkin, head of mobile phone retail chain Evroset, which has 5,200 branches nationwide, also took a swipe at the state, complaining of unwieldy regulations and a stifling and illogical tax regime.

Eighty percent of the market for video game systems and MP3 players are in the "gray zone," Chichvarkin said, meaning that the market relies on dodgy import practices to shake the taxman's seemingly impossible demands.

"To work legally in this market is impossible," he said. "If we lifted the regulations, we would see \$5 billion to \$7 billion in investment into this market."

John Papesh, communications manager at hedge fund Pharos Financial Group, said he was relieved to hear the business leaders speaking out, and he hoped it might signal the start of a more concerted campaign for change.

Lone crusaders on this front have not won much favor from the state, Papesh said, referring specifically to William Browder, CEO of Hermitage Capital and one of the most vocal advocates of minority shareholders' rights. Browder has been barred from Russia since November 2005, even though his firm is one of the largest foreign investors in the country.

"Almost every single speaker on that podium today has voiced some support for change on this issue," Papesh said. "It was so great to see that. People have been asking why the Russian market has not been doing as well as it has in recent years, and I think a lot of it is political."