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## **Bailout could turn tables on Russia's oligarchs**

By NATALIYA VASILYEVA  
Associated Press Writer

MOSCOW (AP) -- They amassed some of the world's biggest fortunes in the wild privatizations of Russia's post-Soviet chaos and the oil boom that followed. Now some of Russia's richest men are facing the choice of losing some of their empires or pleading at the Kremlin's doors for a bailout.

Mikhail Fridman, one of the original oligarchs of the 1990s, was the first to come forward. His Alfa Bank said Friday it was seeking \$400 million in government loans to stave off foreign creditors.

The cash would allow the bank to avoid handing over its 44 percent stake in the major Russian mobile phone company VimpelCom, which it pledged to a group of foreign banks led by Deutsche Bank as collateral for a \$2 billion loan.

But to get the money, Fridman and the other oligarchs lining up for government loans are expected to have to hand over to the state as collateral the stakes in their companies that they used to secure the foreign loans.

And they may find the Kremlin attaching other strings as well.

Such moves could clear the way for the Kremlin to reclaim some of the prize assets it lost in the 1990s and further tighten its hold on Russia's economy - or simply tighten its embrace of the business moguls.

It would be a reverse of the controversial privatization deals that gave the oligarchs their start. In the deals, known as "loans for shares," the oligarchs took major stakes in state-owned oil and metals companies as collateral for loans to the government. The loans were never paid back.

In recent years, many of the wealthy businessmen borrowed heavily abroad, often using their firms' stock as collateral. When Russian stocks plunged over the past few weeks, their creditors began demanding that they put up more collateral or risk losing their shares.

To prevent the shares from falling into foreign hands, the government offered a total of \$50 billion through state-owned bank VEB to help refinance the foreign debts. VEB, which said it has received applications for double that amount, announced Wednesday that it had approved the first loans, totaling nearly \$10 billion.

Alfa Bank's Fridman, who is also a co-owner of the British-Russian oil company TNK-BP, is considered among the best positioned and financially secure of Russia's oligarchs, and thus at little risk in seeking government help.

However, James Fenkner, director of Red Star Asset Management, noted that if the problems continue and Alfa is unable to pay back the loan, "the collateral has nowhere to go but back to the state."

Peter Halloran, CEO of the hedge fund Pharos Fund, said he was unable to predict the outcome of the government bailout deals, but he expressed confidence the oligarchs would rather start pumping oil with their own hands than lose their assets. "It will be the No. 1 priority for them to avoid losing their stakes," he said.

No recipients have been identified, but among those bidding for state financing is metals magnate Oleg Deripaska. His aluminum company, Rusal, is reported to have been given a \$4.5 billion loan.

Russia's Audit Chamber said Friday it would check how Rusal uses the VEB loan. VEB, however, still could not confirm whether Rusal had secured one.

Russian officials have denied any plans to take over private assets. Prime Minister Vladimir Putin said Wednesday that "the expansion of the government's presence in the economy is a forced measure that is of a temporary nature."

Ronald Nash, chief strategist at Renaissance Capital, said he was taking the government's statements at face value.

"I don't think what the government wants from companies that go to VEB is more than for these companies to continue to grow and help the Russian economy grow," Nash said.

Russian companies have been forced to borrow abroad because of an absence of sufficient savings at home, he said, and "what the government is doing now is a very positive reaction."

"They are re-liquifying the domestic economy, whether that's depositing money directly with state banks, or whether that's making it that much easier for domestic banks to borrow against their assets, or whether it's pumping money into VEB to roll over the outstanding foreign debt of the Russian companies," Nash said.

But in the process, the government may get the power to decide whom to save - and on what terms. Fenkner said this could radically change Russia's corporate landscape.

"The state will end up owning big chunks of Russian industries" if commodity prices - a key source of Russian oligarchs' wealth - do not go up again, Fenkner said.

Dependence on state funds is not likely to make the oligarchs any more complaisant, he said. Their loyalty was secured long ago with the jailing of Yukos oil chief Mikhail Khodorkovsky.

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