Russia to partially privatize major industries

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30 August 2010

The Russian government announced last month that it would sell minority stakes in 11 state-owned companies. The assets for sale are estimated to be worth between $20 billion and $29 billion (approximately 600 billion to 900 billion rubles).

Finance Minister Aleksei Kudrin outlined the privatization plans on July 26. The sale includes energy giants Rosneft and Transneft, banks Rosselkhozbank and Sberbank, hydroelectricity generator RusHydro, and the country's electrical grid. The shares are due to be issued between 2011 and 2013, though there is speculation the sale will be delayed.

The privatizations would be the biggest since the mid-1990s, when many former Soviet industries were sold off in the "loans-for-shares" scheme that saw a tiny layer of politically connected individuals vastly enrich themselves through the looting of state property. During this period living standards for millions of workers in Russia, as across the former USSR, plummeted. Hundreds of thousands of jobs were destroyed, social services were gutted, and wages and pensions were sharply reduced or went unpaid.

Russia's economy shrank enormously in the decade following the liquidation of the Soviet Union and the reintroduction of capitalism. With the Putin presidency, beginning in 2000, the Russian ruling class employed a policy of nationalization in order to prevent the collapse of key industries and protect its general class interests against foreign capital.

Particularly in the energy sector, the Russian elite used nationalization and the renegotiation of contracts with foreign companies to take full advantage of the profits to be made from the sharp rise in oil and natural gas prices. This provided a major source of revenue for the Russian government and the narrow ruling layer around it.

There now appears to be a shift away from this strategy, which was always intended as a temporary policy. Last year the Kremlin stated that it planned to sell shares in over 5,000 enterprises and increase state divestment in joint stock companies. In September 2009, Russian Energy Minister Igor Shuvalov raised the possibility of selling 75 percent of Rosneft, the main state oil company.

The discussion of privatization has been accompanied by the so-called "modernization" plans promoted by President Dmitry Medvedev, which call for a greater private role in the economy and increasing foreign inward investment.

The return to a policy of privatization by the Russian elite is a highly provocative step, given the bitter experiences of Russian workers over the past two decades. It is aimed at further enriching the oligarchs and senior state officials, as well as international finance and transnational corporations.

To deflect public opposition to privatization, the selloff was initially packaged as a measure to reduce Russia's budget deficit. Speaking to the media following a cabinet meeting on the privatization program in July, Prime Minister Vladimir Putin commented that the government planned to reduce the deficit from an estimated 5.4 percent of gross domestic product (GDP) this year to zero by 2015.

Like other countries around the world, Russia took extraordinary measures to bail out its financial system and major companies following the 2008 international financial crisis. Russia's central bank spent over $200 billion of its foreign currency reserves in late 2008 propping up the economy, which was hit hard by the crisis and the ensuing global recession.

GDP shrank by 7.9 percent in 2009, and the fall in revenues pushed the Russian budget deficit to 5.9 percent of GDP that year from a surplus of 4 percent in 2008. The deficit is estimated to remain above 3 percent until the end of 2012.

The amount raised by the partial sale of nationalized companies is relatively small compared to the budget deficit, however, which is expected to run at around $70 billion for 2010. If the Kremlin wished to aggressively reduce the fiscal deficit, it could turn to its still massive reserves of foreign currency, which, at around $480 billion, are the third largest in the world. Due to the rise in the global price of oil, Russia's principal export earner, its foreign currency reserve has increased by $90 billion since 2009, according to *Bloomberg.com.*

The more fundamental motives behind the privatizations were hinted at when Economic Development Minister Elvira Nabiullina stated in early August, "The privatizations should not just be a fiscal matter and not so much oriented toward raising funds for the budget, although that's also important. They are in large part a way for us to influence the structure of the economy."

As with all decisions of the Medvedev and Putin administration, the economic restructuring alluded to by Nabiullina is tailored to the interests of Russia's ruling class, termed an "offshore aristocracy" by one senior Kremlin aide. The privatization program offers the billionaires who looted the former Soviet economy and sent much of the wealth abroad an opportunity to profit from the more direct exploitation of Russia's labor and natural resources.

In addition to offering a stake in these major companies to the Russian elite, the Kremlin is looking to attract more foreign investment. Medvedev and Putin have made a number of high profile international visits recently aimed at attracting inward investment, including a visit by the president to Washington and California's Silicon Valley this summer. Medvedev, Putin and other dignitaries travel to China next month, when a Russia-China Joint Business Council is expected to be established.

The selloff will come at the expense of the working class, especially those employed in the industries up for sale. Privatization will see wealthy investors reap profits from these companies by driving up productivity, cutting jobs and reducing wages. The reduction of the state's share of the companies will reduce government revenues, leading to further cuts in social spending.

The privatization plans face opposition within the Russian establishment, especially from powerful figures within the nationalized industries. This layer of senior managers shares the aim of increasing profitability by ramping up the exploitation of workers, but it is seeking to steer the privatization plans in a direction most favorable to its interests.

Since the privatization announcement last month, a number of representatives of the companies up for partial sale have indicated that they oppose the release of a large percentage of shares. While the initial Kremlin announcement claimed that 27 percent of shares in Transneft, the oil pipeline company, would be privatized, so far the government has actually approved the sale of only 3 percent of shares.

In addition, company insiders appear to be pushing for the selloff to be postponed. Challenging the deadline of 2013 for the sale of 24 percent of shares in Rosneft, its vice president, Peter O'Brien, stated that the company had conducted no direct talks with the government. He also advised that any sale take place after the implementation of "tax reforms." Finance Minister Kudrin later announced that the partial privatization of Rosneft would probably take place after 2014.

Forbes.com noted that, "Where privatization is going forward, it may be at management instigation… Unlike insiders of the 1990s, state enterprise managers [today] have had ample opportunity and incentives to arrange to benefit from a high-value rather than a low-value privatization."

For the Russian bourgeoisie, the nationalized status of the companies does not imply any kind of democratic control. The directors and senior managers of the state-owned enterprises comprise a powerful section of the Russian elite, having acquired their highly lucrative positions through connections to Putin, Medvedev and the small circle of oligarchs and state officials around them.

The common aim of all factions of the Russian elite and the international financial aristocracy is to push the burden of the crisis of capitalism onto the working class. The Kremlin has made proposals to cut public spending in order to balance the state budget by 2015, and impose rigid austerity after that, in part based on slashing the number of federal employees by 20 percent and reforming the pension system. Speaking earlier this year, Kudrin told a forum of financial experts in Moscow that Russia would "have a ten-year period without expenditure growth."