

Russia's dismal investment climate

Courting disaster

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Legal and bureaucratic caprice is still undermining foreign investment

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THE website of Telenor, a state-controlled Norwegian telecoms firm, has a special section dedicated to its investments in Russia and its dispute with Alfa Group, its Russian partner. It is a long and unhappy saga filled with headings such as "Geneva arbitration", "Court abuses" and "Black PR campaigns".

Telenor and Altima, the

telecoms arm of Alfa, are shareholders in both VimpelCom of Russia and Kyivstar of Ukraine. In 2004 Altima, which wanted to expand its business in Ukraine further, suggested that VimpelCom buy another Ukrainian telecoms firm. Telenor resisted, saying that the price was too high. Altima accused Telenor of sabotaging its growth.



Shelving investment

For several years the dispute rambled on, with several attempts at arbitration and suits and countersuits in various courts around the world. Then a company called Farimex entered the fray. It is registered in the British Virgin Islands and owns a 0.002% stake in VimpelCom. It complained to a court in Siberia that Telenor (which has no business in Siberia) had obstructed VimpelCom's entry into the Ukrainian market. The Siberian court ordered Telenor to pay compensation of \$2.8 billion, a sum that was reduced to \$1.7 billion on appeal.

When Telenor refused to pay, arguing that it had not exhausted its appeals, another court seized most of

Telenor's 30% stake in VimpelCom. On June 19th Russia's bailiffs ordered the auction of the stake to raise the \$1.7 billion. In most countries this would be called expropriation.

Telenor says it believes the Farimex case is connected to its dispute with Alfa Group. It believes that it could reach an agreement with Alfa, provided its troubles with Farimex come to an end. But Mikhail Fridman, the boss of Alfa Group, says it is not affiliated with Farimex in any way, although he supports its complaint.

Jens Stoltenberg, Norway's prime minister, has raised the subject of Telenor's dispute with Vladimir Putin, his Russian counterpart, who said the government was impartial. But as Telenor points out, Mr Putin himself has admitted that Russia's courts are unpredictable and are in urgent need of reform. It does not help that Russian state-owned firms have in the past benefited from judgments akin to those that Telenor is complaining about.

The clearest indictment of Russia's investment climate came a few days ago from IKEA, a Swedish retail chain, whose local operation has grown quickly since it opened its first store near Moscow in 2000. On June 23rd IKEA said it was suspending its investment in Russia because of the "unpredictable character of administrative procedures", a euphemism for graft. A symbol of Russia's economic rebound from the 1998 financial crisis has become an emblem of its dire investment

climate.

Among 181 countries surveyed by the World Bank for ease of doing business, Russia occupies 120th place, below Nigeria. Transparency International gives Russia barely two points out of ten—its worst performance in ten years, which puts it on a par with Kenya. Until recently the Kremlin had no need to worry about things like property rights and the rule of law. Its oil wealth ensured an economic boom, no matter how it treated investors. Most of the money that flowed into the country came in the form of loans rather than foreign direct investment.

Now the loans have dried up. The Russian economy is forecast to contract by 8.5% this year, an especially dire performance by the standards of the so-called BRIC countries (the others are Brazil, China and India). Russia still blames the global economic crisis for its misfortunes. A closer look at IKEA and Telenor, as well as many of Russia's own companies, suggests the truth is more complicated.

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