

Tuesday, June 28, 2005. Issue 3196. Page 10.

## Now That Gazprom Is Ours

By Konstantin Sonin

There used to be a popular joke about a scientist who, after years of research, finally succeeds in breeding an elephant that fits in the palm of your hand. "We finally did it!" he exclaims to his colleague. "Now if I could only remember what we needed a miniature elephant for."

Last Friday, the government announced that it had acquired a controlling stake in Russia's largest company, the natural gas monopoly Gazprom. Skeptics in some quarters maintain that the deal is far from complete. But let's assume that on June 23, 2005, the citizens of Russia really did take ownership of a controlling stake in Gazprom. What are we going to do with it?

After increasing its share in Gazprom to over 50 percent by agreeing to purchase a 10.7 percent stake for \$7.12 billion, the government announced that it would remove all curbs on trading in Gazprom stock by the end of the year. Liberalization will make Gazprom the world's second-ranked emerging-market blue chip, so the warm response from fund managers was only to be expected.

But increased market capitalization won't provide any direct benefit to average Russians who -- let's not forget -- now own a controlling stake in the gas giant. In fact, we're not planning to sell our stake. A hefty market cap presents a golden opportunity for a company to borrow money on the stock market, but by all accounts money is not what Gazprom needs at the moment. On the contrary, surplus cash has created a fundamental problem for Gazprom because it encourages the company to accumulate noncore assets and allows it to avoid taking measures to improve efficiency.

Noncore assets come in all shapes and sizes. Until recently, Gazprom planned to offload its holdings in the media sector, but now those plans have obviously changed. Through its subsidiary Gazprom-Media, the gas giant has moved to acquire a controlling stake in Izvestia, one of the country's largest and most respected newspapers, to complement its existing media properties, the television stations NTV and NTV+ and the newspapers Trud and Tribuna.

The acquisition of Izvestia isn't necessarily a bad thing for the newspaper's readership. As you recall, Gazprom was a major financial backer of NTV during the station's glory years in the mid-1990s. But we citizens of Russia who own a controlling stake in Gazprom also need to ask if these media companies are really all that profitable. If the television stations broadcast talk shows all day and the papers fill their pages with stories about serial killers, then they're a good investment. But if they're going to jabber about politics, then we're better off selling them and paying dividends to the federal budget -- to ourselves, in other words.

Gazprom's media holdings are small potatoes, however. Our company also has ambitious plans to expand into the oil sector. We as shareholders should be pleased that the Prosecutor General's Office can be used to drive down the price of assets our company wants to snap up. But one thing worries me. Let's say Gazprom continues to buy up assets in the oil and electricity sectors. Who's going to manage this enormous energy conglomerate? After all, the policies of its executives will have far greater economic consequences than those of the Russian government. Will President Vladimir Putin run the company personally?

You might say that he's already on the job, proposing earlier this month that Gazprom invest \$1 billion to deliver natural gas to remote regions of the country. That's a good thing, even if the residents of other regions don't see any economic benefit.

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