

State-Owned Enterprises in Russia

Presentation at the OECD Roundtable on Corporate Governance of SOEs

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Introduction

- State ownership is still important and increasingly so in Russia despite of large-scale privatization
- Definition of SOE:
 - Enterprises where the state has significant control, through full, majority, or significant minority ownership.
 - Direct and indirect ownership at any level of government, at least 10%
- Main government objective of state ownership: industrial development, innovation, diversification of the economy
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Outline

- **The extent of state ownership in Russia**
 - Legal forms of SOEs in Russia
 - State ownership in the aggregate statistics: Extent and sectoral distribution
 - State ownership in the largest Russian enterprises
- **Corporate governance in Russian SOEs**
 - Trends and objectives of the policy and management of state property in Russia
 - Corporate governance problems
 - The new State Corporations: Examples and specific problems of corporate governance
- **Conclusion**

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The extent of state ownership in Russia

Legal forms of SOEs in Russia

- **Joint Stock Companies**: mostly OAO, sometimes ZAO. Examples: Gazprom, Sberbank, Russian Railways, Transneft
- **Unitary Enterprises** at the federal, regional, or municipal level (FGUP, GUP, MUP). Examples: Rosoboronexport, Post of Russia, Rosspirtprom
- **State Corporations**. Examples: Vnesheconombank, Rosnanotekh, Rostekhnologii, Rosatom.

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Extent of state ownership (1)

- Aggregate statistics for firms and organizations – including large and small commercial business firms, non-commercial organizations, and state institutions as long as they are registered as **legal entities**.
- Fraction of firms with 100% state and mixed (state and private), domestic ownership (2007):
 - among all firms and organizations: 11%
 - in employment: 39%
 - in capital investment: 32%
 - in fixed assets (state ownership greater than 50%): 23%

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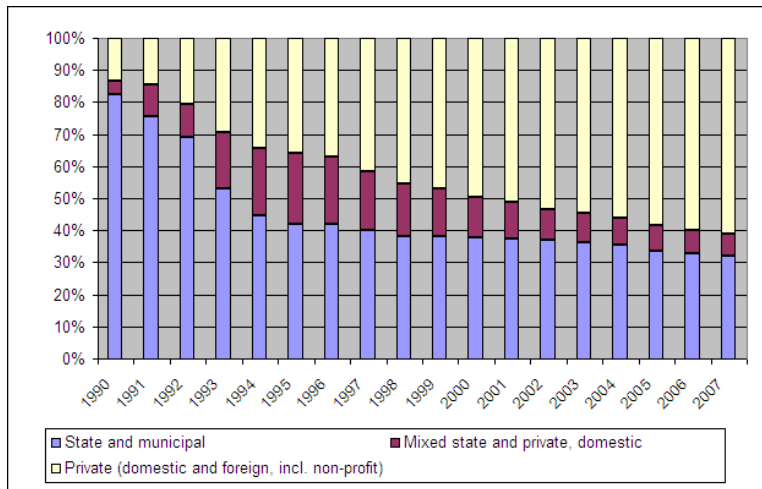
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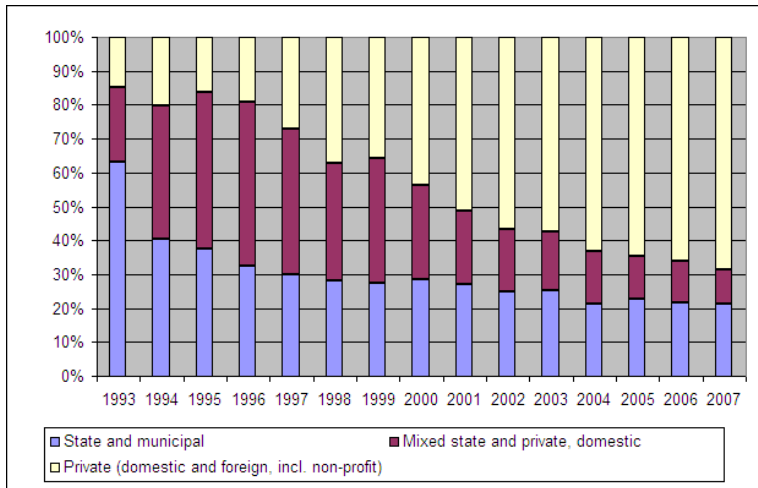
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Extent of state ownership: Employment



Extent of state ownership: Capital investment



Sectoral distribution

- Among SOEs, there is a concentration in fuel and energy and the military-industrial complex
- Among different industries: Output shares in 2006 (fully state-owned and mixed domestic)
 - Manufacturing industry: 19.2%
 - Fuel production: 15.3%
 - Metallurgy: 11.6%
 - Chemical industry: 25.7%
- Banking industry: 45% of total assets held by state-controlled banks (estimation by Vernikov, 2007)

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- This stands in contrast with the widespread perception of an increased role of the Russian government as an owner, in particular of large Russian companies

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State Ownership in the largest Russian companies (1)

Rank	Company name	Market cap (mln dollars)	State share (%)
1	Gazprom	236187	50.1
2	Rosneft	92968	84.6
4	Sberbank	51058	60.6
9	Gazprom Neft	22787	73.7
12	Vneshtorgbank (VTB)	18823	77.5
15	RusHydro	16738	60.4
22	Rostelekom	8349	50.7
23	Unified National Electric Grid (FGC UES)	6377	77.7
26	Bank of Moscow	5531	44.0
32	Mosenergo	4043	60.5

Ranks are from the list of the largest 200 Russian companies by market capitalization, compiled by the Expert Rating Agency.

State Ownership in the largest Russian companies (2)

- Federal and regional governments control about **40% of the stock market capitalization** in Russia in 2007, compared to only 24% in 2004 (Estimates by Troika Dialog).
- Reasons:
 - Increase of minority stakes up to a controlling level (e.g. Gazprom)
 - Acquisition of formerly private companies (e.g. Yukos, Sibneft, VSMPO-Avisma)
 - Large IPOs (Rosneft, VTB)
- State control in various **sectors** in 2007: Banking – 64% of market cap., Oil and gas – 47%, utilities: 37%

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Corporate governance in Russian SOEs

Trends in state property policies

- Increase of control in strategic sectors and enterprises
- Creation of state holdings
- Transformation of unitary enterprises into open JSCs
- Privatization of small and medium-sized SOEs
- Sector reforms: utilities, railways

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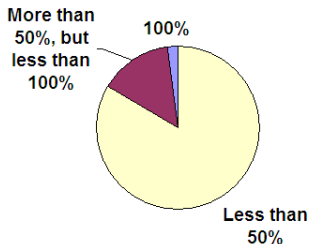
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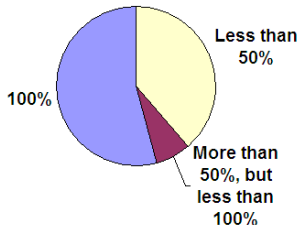
Size of stakes

Size of the government stake in SOEs at the federal level (JSCs only):

Jan 1, 2002



Jan 1, 2008



Strategic enterprises and sectors

- **Strategic enterprises**: A Presidential Decree with list of more than 1000 SOEs from 2004 (changed several times and reduced since then): Privatization and new share issues require explicit approval of the President
- Examples: Transneft, Gazprom, holding company Rosneftegaz, diamant producer Alrosa
- **Strategic sectors**: Law on foreign investment in companies with strategic impact on the national security of the RF: list of sectors where foreign owners need an explicit government permission to acquire a controlling stake of a company
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Recent acquisitions by SOEs

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- Gazprom: Sibneft became Gazprom Neft (2005)
- Rosneft: former Yukos assets (since 2004)
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Recently created state holdings

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- **United Aircraft Corporation**: unites all major Russian aircraft constructors such as Sukhoi, MIG, Tupolev, Ilyushin, and Irkut (formerly private), two leasing companies and the foreign trade company Aviaexport.
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Objectives of state ownership

- Equity objectives and public goods, e.g. energy security, supply of services in spite of regulated prices, non-commercial media
- Industrial policy objectives: infrastructure investments, enterprise restructuring, vertically integrated structures that can survive international competition, re-integration of research institutions and industrial enterprises

How are these objectives formulated?

- not always clearly defined in the founding laws of SOEs
- holding companies define objectives of subsidiaries autonomously
- no indication how trade-off should be handled
- no system of remuneration for pursuing non-commercial objectives

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Corporate governance problems in SOEs

- Double agency problem
- Appointment and work of state representatives
- Transparency issues
- External corporate governance mechanisms weak: threat of bankruptcy, threat of takeover, product market competition

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State Corporations (SCs): Examples

- **Bank for Development:** Financing of infrastructure projects, special economic zones, and the support of SMEs in order to enhance innovation, competitiveness and the diversification of the Russian economy.
- **Rosatom:** Civilian and military use of nuclear energy, implementation of the Federal Program on the Development of the Nuclear energy industrial complex.
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- 4 Lack of separation of regulation and state property management
- 5 Exemption from the bankruptcy law
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