

RA: Investors Should Know their Venture Rests on the Whims of Putin

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From the Charlotte Observer:

Investors should know their venture rests on the whims of Putin

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LONDON -- Foreign investors are increasingly wondering whether investing in Russia is worth the risks. As recently as 2003, Russia was a promising emerging market. Yet in the last four years, alarm bells have been ringing so often and so loudly that the most likely response of most foreign investors will be to seek opportunities elsewhere.

On one hand there are the success stories -- investors who have made a fast buck on the ballooning Russian stock markets and companies that have staked out a solid market share in an increasingly affluent Russia.

Yet on the other hand, there are illegal expropriations, the imprisonment or deportation of entrepreneurs, show trials and contract killings.

In Russia, law has become an instrument of the increasingly hubristic and corrupt political elite. Today's Kremlin disregards laws with impunity, while simultaneously using legal pretexts such as tax or environmental regulations to obtain what it wants. Russia is the most thoroughly corrupt among major powers in the world today.

Imposing tax liability is one of the Kremlin's favored means of pressuring businesses to do its bidding. The law is irrelevant.

To this day, the Kremlin stands behind the tax bills imposed on the Yukos Oil Co., including the 2004 tax assessment that drove the company into bankruptcy.

To break up and repossess Yukos Oil and to justify jailing CEO Mikhail Khodorkovsky, the company was charged \$8 of tax per \$1 of revenue in 2004. The company collapsed and billions of dollars of shareholder value evaporated as a result of the Kremlin's desire to retake control of the oil industry.

The Kremlin also tears up business deals at will -- even huge investment agreements with foreign companies that have poured billions of dollars into Russia. These companies are put in a chokehold until they surrender whatever it is that the Kremlin is after. Their CEOs will put on a brave face and tell shareholders that they have rescued a few billion dollars worth of assets, despite a state-sanctioned theft of billions more. No one is above the extortion tactics of the Kremlin.

With government and the justice system in severe disrepute, the market and the rule of law have lost out to a free-for-all. The Kremlin does not seem to care enough about the reputational costs of the manner in which it treats investors, and it should not be surprised to find that foreign investors no longer want to take risks in Russia.

In such a climate, Russia's own people have been betrayed by their leadership. Both entrepreneurs and the rest of the populace have been and will continue to be the first victims of foreign investors' decisions to seek better investment conditions elsewhere.

Whether or not Russia's leadership will wake up to the country's true market potential is an open question. There is still hope for that potential to be unlocked, not by thievery but by real economic fundamentals. For the time being, however, the Russian leadership has a long way to go to win the confidence of foreign investors.

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