

Robert Amsterdam in the Guardian: Where Business is Politics

RA has an op/ed column running today on the Guardian website.

Where Business is Politics

The British government should take action to protect investors in Russia

By Robert R Amsterdam

May 11, 2007.

At the recent Russian Economic Forum, the British secretary of state for trade and industry Alistair Darling said that in Russia "commercial considerations should be the beginning, middle and end of business relations".

Don't we wish!

It is no small twist of irony that Mr Darling made these comments before a diminished and marginal audience, as the line-up of influential speakers was torpedoed by a last-minute politically motivated boycott from the Kremlin, cancelling the appearances of Gazprom and Rosneft's top brass, as well as allegedly pressuring non-Russian business partners not to attend the event. The reason: a diplomatic tiff over an extradition request, coming on the heels of a violent repression of opposition protestors, including the wrongful arrest of former chess champion and now leader of the democratic movement, Gary Kasparov.

If an innocuous business conference in London can't even take place without political intervention reminiscent of Soviet-style boycotts, one could argue that Mr Darling's call for purely commercial considerations is wildly optimistic. The forum experience is just one of many recent examples which illustrate the failure of Britain's government and private sector to understand that business affairs cannot realistically be separated from politics in today's Russia.

This unwillingness to recognise the new Russian reality can be motivated only by a greed transcending ethics and responsibility, which allowed the London Stock Exchange to float Rosneft when it was patently clear that the much of the company's assets were seized illegally.

The country's infamy for meddling in private assets is growing daily. The treatment of Yukos and Mikhail Khodorkovsky is a case in point which served as a training exercise for the Kremlin to perfect a technique of "legalism à la carte" to seize energy properties and eliminate perceived political challenges.

It should have served as a clear warning of the Kremlin's malicious motives when prosecutors went after Yukos lawyer Svetlana Bahkmina, who was sent to prison on invented charges, simply for doing her job as defence council. But then these quasi-legal attacks continued to extend outward to foreigners with the outrageous investigation of British solicitor Tim Osborne, as well as the ransacking of PwC's Moscow offices, erasing any remaining doubt about how high the stakes have risen.

From Yukos, the Kremlin expanded its unlawful repertoire, exerting pressure through regulatory authorities and environmental watchdogs to muscle Shell out of its majority position at Sakhalin-2, and then later threaten to take over a large BP investment in Siberia - a threat which was met with a shamefully swift surrender of values and ethics what is held to be one of Britain's most impressive global companies. The recent scandal contributing to the resignation of Lord Browne is paled by comparison to his "homage" to the court of Vladimir Putin to present his successor Tony Hayward, to pave the way for BP's participation in the rigged auction of Yukos' assets. This event should mark a low point in the history of British corporate integrity.

Yet the British government is letting this happen under its nose, quietly observing as the Kremlin nurtures European dependence on its energy exports while its critics large and small are harassed, imprisoned, and sometimes even killed in mysterious circumstances. The fact that the Blair government sent Mr Darling on a trade mission to Russia in the middle of the Alexander Litvinenko investigation - which Moscow refused to cooperate with at the time - is just one gesture of an ongoing deference that deepens Britain's vulnerability to the whims of the siloviki.

This inaction is becoming more and more costly each day. But what can be done? First, in the long-term interests of its commercial sector, the British Foreign Office needs to begin to demand visible improvements in democratic institutions and the rule and law. As the single largest foreign investor in Russia, Britain has the leverage to make such requests. For private investors, it is time to come to the table with an updated calculation of political risk.

Perhaps the best thing Britain can do is to take a page from Norway. A recent report in the International Herald Tribune shows that sovereign governments can use their moral authority to guide investment decisions, something that the Norwegians have used to create a blacklist which discourages investment in corporations engaged in unethical corporate social responsibility practices.

While Norway is mostly concerned with refusing to condone weapons manufacturers and retailers accused of labour violations, it is time for Britain to take the lead to create the first list of Russian companies that should not be invested in. Such leadership can help create the necessary carrots and sticks to bring corrupt, majority state-owned Russian firms into rule-based systems and play in the competitive, not managed, free markets.

As Mr Darling remarked, "We need legal certainty to ensure investors have the confidence to invest for the long term." However, the government is failing to match this hollow sentiment with any action. As it long as this situation goes on, foreign investors must play the investment equivalent of Russian roulette.