

Soros says repression no way to push reform

By MICHAEL HEATH
The Russia Journal

International speculator and philanthropist George Soros warned this week that the use of Soviet-style methods to bludgeon through economic reforms in Russia would not attract much-needed foreign investment to the country.

Soros, who has spent the last week touring regional organizations in Russia funded by his Open Society Institute, as well as meeting senior government officials to discuss reform, told a press conference Tuesday that he had seen and heard many interesting programs and proposals on his travels. But he cautioned against the darker tendencies that have emerged recently, and was particularly incensed by a recent dictate to Russian scientists.

"I have in my hand a directive issued by the Russian Academy of Sciences," Soros said, holding up a sheet of paper, "and it is basically a return to the Soviet system." He said the directive implied that all contact by scientists with foreigners would need to be registered and reports written after visits abroad.

Soros said that he found the directive "objectionable" not only as a believer in an open society, but also as an investor. Asked whether threats to an open society would affect his decisions about investing in Russia, Soros replied bluntly: "Yes. It is an important consideration.

"There are two tendencies — one is economic reform; the other is a political retreat," he said of the current situation in Russia. "Beyond a certain point these two tendencies cannot be reconciled and I think [the Academy of Sciences] ruling already goes over the border of what can be tolerated."

But Soros wears more than one hat when traveling to Russia: Apart from being a philanthropist he is also an investor in the country.

On this front, Soros focused most of his attention on Gazprom — a company he said he had "interests in" — and the opportunities the recent change in management presented. He outlined a proposal he had put to Economic Development and Trade Minister German Gref for abolishing the ring-fence around Gazprom stocks that separates domestic shares from American Depositary Receipts (ADRs) owned by foreign investors.

Under the Soros scheme, existing holders of ADRs would have the opportunity to buy domestic shares on a one-to-one basis, a single ADR providing the right to buy a single domestic share. He said that such a move would cut the difference between the ADRs and domestic shares in half, and that this would compensate ADR holders for buying at a price far higher than the local market level.

"To the extent that right is exercised, the [share] price here will increase, and the fact that the



GEORGE SOROS signed books and issued a warning in Moscow this week.

anomaly is eliminated and additional supply has become available will generate demand for Gazprom shares abroad," Soros said. He added that on such a basis, unless something strange happened, both the prices of domestic shares and ADRs would increase in value.

"Trust me, I know about these things," Soros quipped, referring to his reputation for picking international markets, earning him billions of dollars. He said the ministry was "actively considering" his proposal for breaking down the ring-fence.

Soros said an alternative proposal floated by the ministry was to hold auctions for domestic shareholders to bid to convert their shares to ADRs. But, he added, he was against such a

move, saying it was "more likely to depress shares" as investors waited to see the outcome on the market.

Soros said that while the reorganization at RAO UES had been a very messy affair, even with a decision made to try to restructure the company, Gazprom could be different. "There has been a change of management at Gazprom and there is a chance to impose transparency there. If the authorities act on my proposal to break down the ring-fence, I think it will send a very strong message to the international investment community."

But Soros also returned to his role as philanthropist, touting various projects his foundation has been involved in, related to everything from education to

penal reform. He placed particular emphasis on his foundation's program to fight tuberculosis, both in prisons and against multi-drug-resistant strains of the disease.

Soros' foundation has spent \$15 million to \$20 million supporting the fight against tuberculosis, he said, but the program is now due to end. He said a World Bank loan of \$150 million was supposed to pick up and expand on where his program left off, but that the loan negotiations had unfortunately become "bogged down."

"This is of particular concern to me," he said. "If there is no follow-up, then the money spent will have largely been wasted. Of course, we will have cured some people and retarded the spread of the disease, but without follow-up the problem will continue."

Soros contrasted these difficulties with a \$3 million AIDS program his foundation has been running that is also due to conclude. "The British government is taking [the AIDS program] over and will be putting in \$5 million to \$6 million a year," he said. "I want to acknowledge the far-sightedness of the British government in this."

But Soros was unable to refrain from returning to the issue of Russian scientists. Asked at the end of the press conference what had struck him most about his latest visit to Russia, Soros replied "This!" holding up the Academy of Sciences order and pointing to it. ■

Norasco's Goyal makes way for Goel

Ajay Goyal, president and CEO of Norasco Publishing Ltd., publisher of The Russia Journal, announced this week that he is stepping down, and Norasco executive Sandeep Goel is set to take his place as CEO.

"Sandeep has been with us for 15 years and he has great experience in running large operations in Singapore, Ukraine and Russia," Goyal said. "He has a lot to offer the company."

Goyal said that his reasons for resignation were professional. "The Russia Journal is now profitable, and we have built an excellent team of managers and partners who can run the show better than the founders now. I plan to focus on our core businesses and investments. Even though this has been a relatively smaller investment, getting any business off the ground and making it profitable in Russia takes a lot out of you. It's also resulted in less time and attention to our core investments and businesses."

Goyal spoke this week at a round-table with Duma deputies and media professionals to discuss the proposed media law limiting foreign ownership. He said: "We can live with any law as long as it is clear, even-handed and stimulates domestic competition. We simply need some regulatory clarifications and better-defined legislation."

Goyal, who initiated the event, added: "We are very pleased that the deputies who proposed the law are willing to engage in a consultation process. They have been very open to our suggestions, and I think the final version [of the law] will be acceptable to all interested parties."

Norasco Publishing launched the

first issue of its monthly bilingual GolfStyle magazine this week. The company's flagship publication, The Russia Journal, was founded in 1998, a few months after the August financial crisis. "We made an excellent move then," said Goyal, "the cost of newsprint, rentals and salaries were a fraction of what they are today. The opportunity cost was probably five times less then. It would cost many

times more to establish a similar newspaper today. We had targeted profitability in the third year, and we are right on the mark. Now, the company can expand in the Internet and other print media."

Goyal continues to hold the largest equity stake in the company. "I would still like to visit Russia and perhaps continue to write for The Russia Journal," he said. — TRJ



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