

Poisoning puts business with Russia under a cloud

Investor trust put at risk after Litvinenko death

Kremlin 'more concerned about asserting its power'

Terry Macalister

The poisoning in London of a former KGB officer, Alexander Litvinenko, will damage investor confidence in Russia, the primary trade association representing those doing business between Britain and Russia warned yesterday.

The warning comes at a time of unprecedented interest in Russian companies raising money on the London Stock Exchange, and coincides with increased criticism by Moscow of Shell and other western firms operating in Russia.

"While there is no proof as to who is responsible, this horrible incident will add fuel to the negative views expressed in the western media about the rule of law in Russia and the activities of the Russian state," said Godfrey Cromwell, executive director of the Russo-British Chamber of Commerce, which celebrates its 90th anniversary this year.

"Such things matter a great deal to investors looking at Russia and, whoever was the perpetrator, this type of publicity will deter some investors," he added.

Businessmen active in the west such as Russian emigre, Alex Konanykhin, agree. "Foreign investors now read reports about Russia being an authoritarian country where political opposition has been stifled and where the legal system is controlled by the government and used for taking over lucrative companies," said Mr Konanykhin who is a former friend of the now-jailed Mikhail Khodorkovsky, founder of Russian oil company Yukos.

Despite the bad publicity, Mr Konanykhin does not think it will change the ways of the Kremlin.



PHOTOGRAPH: MACDUFFEVERTON/CORBIS

On the road from Moscow

Alex Konanykhin the former banker, says he has been hunted relentlessly from one continent to another for over a decade by forces acting for the Kremlin.

A beneficiary of the early 1990s move from a managed to a free enterprise economy, Mr Konanykhin (pictured below) once ran a \$300m finance house in Moscow – the Russian Exchange Bank.

But in 1992 he discovered that two former KGB men had approached individual shareholders about winning their stakes in an attempt to launch a takeover. Within days Mr Konanykhin found himself being kidnapped by associates of the two men while on a business trip to Budapest with his wife.

"You will sign your companies and bank accounts over to

us," the men demanded. When he asked what would happen if he did not, they replied: "Then you might accidentally drown in your apartment's bath."

Mr Konanykhin and his wife Elena managed to flee, first to Slovakia and then to America but soon found many of their assets in Russia frozen and their reputations shredded by the KGB.

By 1994, one of the banker's former kidnappers was boasting in a Russian business newspaper that he wouldn't bet a dollar on Mr Konanykhin's life.

The Russian businessman, who was granted political asylum in the US and now runs an internet business there, says his attempts to win justice in his home country and question the ethics of the state

that allowed this to happen just got him

deeper into conflict. The FBI warned him in 1995 to take care as they had information that the KGB had hired US mafia men to get rid of him.

The Russian government tried three times to get him extradited with the help of US officials but he managed to fight them off with court judgments that deemed the attempts unlawful.

Mr Konanykhin, who has taken up martial arts with a vengeance, says he keeps fear at bay with "mental training". And while he no longer expects to meet a violent death, he says he will not be having children with the wife he loves.

"Children represent a perfect pressure point. A man might stop caring about himself but will have difficulty in stopping caring about people he loves."

The Organisation for Economic Co-operation and Development (OECD) this week criticised the Russian government for its expansion into 'key economic sectors in a report on the economy. It also pointed to concerns about Gazprom the state-run energy company, and its "seemingly insatiable appetite for asset acquisition."

But Artyom Konchin, equity analyst with Aton Capital in Moscow, is confident that western investors will not be chased away by the latest high-profile problems. "I have not seen any [negative] echoes yet and I do not expect the sentiment of investors to change much. People are very pragmatic when it comes to money," he argues.

"After all, 90% of those who invested in [the recent flotation of] Rosneft were those who invested in Yukos [the company alleged to have had its assets stolen by Rosneft]," he adds.

A huge swath of Russian companies – many coming from the sector such as Rosneft – have had full shares or depository receipts listed on the London Stock Exchange.

The electricity generator, OGC-5, is one of the latest businesses to successfully raise money despite unease about the way western groups such as Shell and BP are being treated in Russia.

Shell has been under attack over alleged environmental damage on its Sakhalin-2 gas project amid attempts by Russian state-owned Gazprom, to muscle into the scheme.

Many Russian commentators put the two events together and Mr Konchin says there is no doubt that the Kremlin would like more control over a sector where the value has rocketed on the back of rising energy prices.

Mr Konanykhin believes the Kremlin is more concerned about asserting its own political power than worrying about what foreign politicians or investors think.

