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The Buzz Is About Yukos in Boston

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BOSTON -- Although invited to the seventh annual U.S.-Russia Investment Symposium to discuss economic diversification, participants are mainly talking about the Yukos crisis, with investment guru George Soros even calling for Russia's expulsion from the G-8 over the "political persecution" of oil magnate Mikhail Khodorkovsky.

"The G-8 is supposed to be a democratic organization, but it is becoming questionable whether Russia qualifies for it," Soros told a packed hall Wednesday night.

Soros said Russia by itself would do little to change and urged the West to try to intervene. "Particularly President [George W.] Bush, who has embraced President [Vladimir] Putin and looked into his soul and liked what he saw. I think he has to disembrace Putin and put him on notice that he is taking the country in the wrong direction," he said.

Soros, who has given more than \$1 billion to philanthropic projects in Russia since the Soviet collapse and was speaking after accepting an award for his contribution to building a democratic Russia, said the fact that Khodorkovsky has been jailed since late October without being found guilty amounts to political persecution.

The Moscow City Court on Tuesday extended Khodorkovsky's detention until Dec. 30, and a prosecutor said Wednesday that Khodorkovsky might be held in pretrial detention for up to two years.

Khodorkovsky, the founder of Yukos and Russia's richest man with an estimated wealth of \$8.5 billion, was arrested at gunpoint last month and charged with \$1 billion fraud and tax evasion. After building his fortune from the shady privatizations of the 1990s, he began taking an active interest in politics -- a shift that observers say has the Kremlin worried. Khodorkovsky told *Fortune* magazine in August: "I'm going to try to buy a democratic future for my country. And I have enough money and energy to do that."

Soros said Khodorkovsky's arrest casts doubt on whether Putin is committed to building democracy or is just selectively using the law. Putin insisted Thursday that "there is no basis to suppose that the use of laws is selective or will be selective." (Story, Page 5.)

Soros said the arrest will hurt Russia's economy and foreign investment. "The signal is so negative for Russia's development that I can hardly believe that this was President Putin's intention. I think a very bad mistake was made in doing this."

Of all the oligarchs, Khodorkovsky -- whose Open Russia foundation has taken over parts of Soros' own philanthropic programs in Russia -- is "the most enlightened," Soros said, praising him for building a transparent company with good corporate governance practices.

Notably, earlier in the day U.S.-Russia Investment Symposium participants were invited to attend a workshop based on a case study of Yukos corporate governance developed by the Harvard Business School.

Soros said he saw "no direct connection" between the "persecution" of Khodorkovsky, last Friday's raid of his own Open Society Institute's Moscow offices on orders "of a gangster landlord" and the beating Monday of

prominent journalist Otto Latsis. "But when you add it all up, it gives you a very, very bad feeling as to where Russia is heading," he said.

U.S. Commerce Secretary Don Evans told the conference Thursday that Russia must show that its justice system is fair and transparent if it is to continue to attract foreign investment.

"The Russian government has made impressive progress since ... the 1998 financial meltdown to create and safeguard an attractive investment climate," he said.

"Investors are looking for signals as to how this process is going to be handled," he said.

"Will the implementation be fair? Will there be no political intervention in the process?"

Evans repeatedly identified the rule of law, predictability, stability and "a climate of trust and safety" as key conditions Russia should guarantee in its handling of the Yukos affair and beyond to attract investment and stimulate economic growth.

Economic Development and Trade Minister German Gref listened as Evans spoke and then took the stage to defend the Kremlin.

"I know Putin very well. He is a convinced liberal in his vision of the economic policy," Gref said in a speech touting Russia's continuing economic upswing, shrinking sovereign debt and growing foreign investment.

"There should be no doubt whatsoever that the general course of Russian economic policy will remain the same," he said.

Gref also expressed optimism that the stock market, which has dropped sharply over the Yukos affair, will eventually rebound.

Telecommunications Minister Leonid Reiman echoed Gref's hopes later in the day.

"It would be strange to say the Yukos situation will not influence the situation on the markets," he told reporters.

"It must be openly discussed and there must be a verdict issued by the court. And if there is a verdict ... we will just have to deal with it and try to restore the situation on the market."

Opening the three-day conference Wednesday, Harvard University professor Graham Allison said Russia has the choice of becoming a Canada or a Guatemala.

He said Guatemala is the direction being taken if Khodorkovsky's arrest is an attempt to "checkmate" the businessman before he can become Russia's equivalent of Italian baron-turned-Prime Minister Silvio Berlusconi.

The theme for the conference is "Toward Diversification of the Russian Economy," but organizers were quick to react to the developments in Russia, issuing a statement Wednesday warning that Putin may be "dismantling democracy to consolidate political power."

The Yukos affair was on just about everybody's lips in informal conversations, although few participants showed alarm.

"The case ... creates a certain degree of uncertainty," former U.S. Ambassador to Russia James Collins said in an interview. But he noted that foreign investors are still showing "a tremendous interest in Russia."

Collins, now a senior international adviser with the law firm Akin Gump

Strauss Hauer & Feld, praised Putin's government for pushing on with economic and legal reforms. "These reforms have to be continued," he said.

Western investors tend to be less alarmist than their Russian counterparts in assessing the possible repercussions of the Khodorkovsky case, a U.S. investor said, speaking on condition of anonymity.

He said Western investors he has spoken with at the conference generally agree that the authorities are targeting Khodorkovsky personally in an "isolated case" rather than attempting to seize Yukos or even revisit privatization.

As for Soros' criticism, he said it might be difficult for the financier "to balance his political and economic interests," given his participation in 1990s privatizations.

Former Pepsico chairman Donald Kendall was more upbeat than many in his assessment of Russia, saying Pepsi has seen a fivefold growth in sales since 1999 that shows "there are tremendous opportunities."

Kendall, who introduced Pepsi to the Soviet Union, described in detail how Pepsico is now relying on locally grown potatoes for its Frito-Lay chips.

He also said that while it is easier to deal with a totalitarian regime, there is bigger money to be made in a free-market economy.

"It is very easy with a totalitarian government, as you only have to deal with a few people," he said. "In a market economy, you have to deal with many more people, but market economy is much better."