TALKING TRUTH TO THE MARKET

An interview with Mineweb Russian correspondent John Helmer

He's the doyen of the foreign press corps in Russia, and a tough, no-nonsense investigative reporter. Norilsk Nickel Magazine turns the journalistic hot seat around and interviews Mineweb Moscow correspondent John Helmer.

Author: Courtesy of Norilsk Nickel Magazine
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Q: How did you first come to Russia - why have you stayed so long?

A: Russia is only the last one of several revolutions I've lived and worked through in my career. I started as a member of the prime minister's staff in the first Labor government to win an Australian election between 1949 and 1972. That government was overthrown in a putsch by pseudo-constitutionalists against political cowards in 1975. I was a bureau chief in the US Office of the President when Jimmy Carter attempted his modest, but also revolutionary, attempts to reform US domestic and foreign policy. He was destroyed by Ronald Reagan in 1981. I was private advisor to Prime Minister Andreas Papandreou, who revolutionized Greece between 1982 and 1989, when he lost an election, and was then destroyed by his lover. You might say I've had a career working for one political loser after another. When I came to Moscow for Papandreou in 1987, I had my doubts about Gorbachev; more about Raisa Gorbacheva, and even more about Eduard Shevardnadze. You know what happened to all three of them. I stayed - like Dostoyevsky's gambler, who is sure the next deal of cards, or the next turn of the roulette wheel, must be the winning one. Until Vladimir Putin replaced Boris Yeltsin, Russia was dealing itself one losing hand after another, with cards whose corners had been cut by the NATO powers. Who can resist the dice that will be rolled in March of next year?

Q: How do you assess the most recent period?

A: I was the first foreigner to own Russian land since 1917. I still have it. It's 2.6 square metres, and it's a grave site in an old Moscow cemetery. It was there in 1993 that I buried someone I loved; she died of a grave illness no Moscow hospital was equipped to treat at the time. Graves were the first Russian land holdings to be privatized. That was fitting, because Yeltsin arranged for misfortune to be privatized, first of all. I've experienced most of the terrible things that have happened to most Russians -- death, theft of my home, threats of violence, contract fraud, corruption of the schools, courts, streets, hospitals, and media. My attitude changes with the country's. At present, I share the hope for remedies for fifteen years of bitter losses, but also great skepticism that they will be sustainable.

Q: What is your forecast for the future?

A: Putin took four years to secure himself. He then needed another four years to secure the country's most important resource franchises, but he hasn't completed that task yet, and his successor may be too weak to do so. He will start all over again protecting himself. What you see now -- the wave of domestic asset consolidations and London IPOs -- indicates how uncertain those who hold the asset franchises of the country feel about the future, if Putin leaves. My guess is that Putin will remain in charge. I hope this will stabilize the distribution of property on foundations that can withstand global price shocks; troublemakers across Russia's frontiers; the relentless pressure of China; and the boom-bust cycle that is already eating away at the Russian prosperity that has been earned since 1998.

Q: What are the most typical problems for Russian companies in their expansion to the international markets? What are ways of overcoming them?

A: Let's not misunderstand or misinterpret what is happening. Russia's recovery from the damage of the 1990s depends, first and foremost, on the energy trade. But Russia's oil and gas exports depend, precariously, on pipelines that cross potentially hostile territory, on sea channels that can be closed to Russian cargoes, on investment in new energy reserves at home that can be starved of cash, and on a market rigged by a handful of international companies that take their orders from Washington or London. In this world, no one wishes Russia well. In a time of unprecedented high commodity prices, volatile currencies, and risk of global supply disruptions, it is necessary for Russian corporations like Gazprom to protect their access to global markets, limit their exposure to the US dollar, prevent the depletion of their reserves, and combat the devaluation of their profits.

Gazprom and the state-owned oil companies pursue foreign expansion with a different rationale from the privately owned Russian corporates. Some of the latter have built elaborate offshore trading schemes to ensure that the profitability of their Russian operations is transferred abroad, without paying Russian tax. Others have created a mountain of debt for their Russian companies, while paying premiums for assets abroad. Forget synergies and beating trade barriers -- the assets which Russia's steelmakers have acquired are best thought of as profit havens, or insurance policies, or kickers on consolidated balance-sheets to sustain international share prices making possible share swaps and mergers. This is the new form of capital flight from Russia.

It is hardly surprising that when brokers and investment bankers in London, New York, or Johannesburg have assets they would rather get rid of, they leak rumours of Russian buying interest.

The market believes Russian money is hot, in flight, and willing to pay over market to get away from the taxman, or the Kremlin. There is also a natural apprehension in the international markets that Russian asset raiders will use the same tactics abroad that they used to acquire their assets at home. According to a recent survey of international attitudes towards Russian corporate expansion, there is widespread concern for corruption and bribery. Transparency International, an independent research organization, consistently ranks Russia at the worst end of the global bribepayers' index. Nothing can be done to change these attitudes, for the time being. The City of London, its investment bankers, lawyers, real estate agents, and PR men all live off this lawlessness. In fact, they share in the rewards, and have no motive to reform themselves - much to the chagrin of the somewhat better regulated, relatively more law-abiding institutions of Wall Street.

Q: How is the Russian mining sector different?

A: The two great Russian mining companies, Norilsk Nickel and Alrosa, are closer to Gazprom and the state-owned oil companies than they are to Russia's privately owned steel and aluminum groups; perhaps the state-owned Rosoboronexport group, led by Sergei Chemezov and Sergei Nosov, can transform the latter in a progressive direction over the next twelve months. Norilsk Nickel and Alrosa are giants in the global markets of nickel, platinum group metals, cobalt, and diamonds. Their products are priced in dollars. They must convert some of those dollars into foreign assets, and they must beat their rivals for market share, so as to preserve their profitability for the future. Norilsk Nickel's investments, upstream and downstream, in Australia and Finland, make sense according to these criteria. Buying Stillwater Mining Co., the North American palladium miner, did not, but arguably, it cost next to nothing. At any rate, it was one of Leonid Rozhetskin's schemes for enriching himself, when he was on the Norilsk Nickel board. After his dismissal two years ago, he can do no further damage.

Alrosa's expansion into southern Africa also meets the criteria for appropriate market-conserving investment. So, too, does its diversification into other minerals and oil. From Alrosa's point of view, it would be an expensive risk to mine diamonds in Canada, or move downstream into diamond jewelry, as De Beers is busy proving. In time, Alrosa has the potential to surpass De Beers, especially when the Oppenheimer family lose their management control, and exit the mining business altogether.

Norilsk Nickel has just had an important management change, and it is about to undergo a series of important shareholder reorganizations. It is being courted for partnerships by the major international mining companies. Some of them, BHP Billiton for example, may boast; but their record of corporate governance and transparency is worse than Norilsk Nickel's.

Q: What were the most significant events in the Russian mining business during the past year? What, from your point of view, are the most significant this year?

A: Russian mining remains in the grip of a cult of personality; for that reason, the most important events were those which happened to individuals: Roman Abramovich's buyout of Alexander Abramov at Evraz Steel last July; the car crash in November that nearly wiped out Suleiman Kerimov, owner of Polymetal Gold; the French alpine affair in January involving Mikhail Prokhorov, co-owner of Norilsk Nickel and Polyus Gold; the replacement of Alexander Nichiporuk at Alrosa by Sergei Vybornov in February. Taken together, these companies have a combined market capitalization of almost $150 billion. It is rare in the mining world for such capital value in publicly listed companies to be as dependent on individuals as these are. This is also acknowledged to be a vulnerability of Russia's mining sector in the marketplace - a source of potentially negative investor sentiment. Nowhere is the problem more aptly summed up than in the IPO prospectus issued in April 2007 by Magnitogorsk Metallurgical Combine (MMK), whose shareholding ownership is more closely held by a single individual, Victor Rashnikov, than in any other major Russian metals company. The prospectus warns prospective share-buyers that the value of the company's capital could be drastically altered "by the ability of ...Mr. Victor Rashnikov...to exert significant influence over the MMK Group." The personality cult, based on shareholding concentration, is the biggest danger facing the Russian mining sector over the next five years.

If a single human life can be so much more valuable in Russian mine managements, compared to the international peers, what are we to make of the loss of life in the two worst disasters to strike the Russian gold mining and coalmining sectors -- the fire at Highland Gold's Darasun mine in September 2006, which cost 25 lives; and the methane blast in March 2007 at the Evraz-Yuzhkuzbassugol coalmine in Irkutsk, killing 108. The regrettable fact is that corporate and management responsibility for the loss of life is proving negligible. The outcome is that disasters like these will happen again - because the market rewards the cost savings that increase safety risks, and because government regulators are too weak to do anything but complain aloud.

Q: What is the role of the mining correspondent in the marketplace?

A: It is sometimes thought that Russian business journalism - the work of my colleagues at Kommersant and other newspapers of repute - is inferior to the western counterparts, and that western mining companies are more transparent to the press. This is not true. The fact is that the business media of the west are under constant manipulation by brokers, bankers, and touts trying to manipulate share prices. Wire services like Reuters and Bloomberg, newspapers like the *Financial Times*, can print unsubstantiated gossip, and boost share prices by 10% to 20%. This type of manipulation is not just happening with junior miners and gold speculators. A hoax bid for Gold Fields in April lifted that major South African miner's share price by 11% (almost $1 billion in capital value) - before accurate reporting restored the market. Russian mining companies are often used in these hoaxes. In March, an unsubstantiated report appeared in the North American media, claiming that Polyus was thinking of buying out Crystallex, a miner that has been unable to get permits to start a goldmine in Venezuela. The share price for Crystallex shot up 17% in a few hours, before collapsing on the truth.

Scarce and illiquid mining shares are easiest to manipulate by these insider tricks because the good news, though fake, can drive the share price up on relatively low-volume trading. It is difficult in these cases to identify precisely who the culprits are; easier to pinpoint who benefits from selling into a rising market, before the price crash. But in a general sense, the problem is in the way mining is now being reported. When it is impossible to tell the difference between mining analysis and company press releases, you know the mining correspondent is failing in his role - to inform the market. In this respect, Russian mining reports are at least as good as their western counterparts; in some respects, they are better. In the west, most mining media have become PR fronts and sources of stock market deception.

There is another problem. If mining correspondents do their job, they must act independently of the mining companies who sponsor and advertise in the mining media. It isn't the job of the mining correspondent to be friendly; it's his job to be truthful. And in this respect some of the least transparent mining companies in the world are also the most hostile towards independent mining analysis. In my experience, Norilsk Nickel is far more transparent in this respect than BHP Billiton and Anglo American.

*Editor's Note: This interview was first published in **Norilsk Nickel Magazine***