

## How to Steal a Russian Airport

The decision to pull the initial public offering was announced on the last Sunday in May, late at night. The company that had been planning to sell its shares to the public — hoping to raise somewhere between \$700 million and \$1 billion — was the Domodedovo airport, the biggest and best-run of Moscow's three airports, and the only one not owned by the state.

The airport's investment bankers blamed the problem on the usual suspect: "market conditions" — meaning that they weren't going to get the price that they had hoped for. And I suppose, in some literal sense, that was true. But it didn't begin to capture the real story.

A few days ago, [I wrote about](#) the human cost of Russia's lack of respect for the rule of law. There is also a business cost, one that hurts Russia on a daily basis. The decision by the owners of the Domodedovo airport to withdraw its I.P.O. is a perfect example — and helps explain why Russia simply cannot have a modern economy until it has a real rule of law.

It is no coincidence, of course, that the best airport in Moscow is the only one in private hands. The management company, East Line Group, [took over](#)

Domodedovo in 1996 when it was “a small, rundown airport,” according to The Moscow Times. It poured enormous sums into upgrades and new terminals, attracted new business — and forced the government-run airports to spend money just to keep pace. It was good for everyone — including Domodedovo, which had revenues of \$1 billion a year. This is how the textbooks say capitalism is supposed to work.

In January, however, a suicide bomber got past the airport’s security, killing 37 people and wounding 180. Russia’s president, Dmitri Medvedev, ordered the prosecutor general to write a report. It seems fair to say that Russia’s plutocrats saw this as their opening.

In mid-May, days before the airport announced its plans to go public, the prosecutor general lowered the boom. His report concluded that the airport’s offshore ownership structure was “unacceptable,” because it allowed Domodedovo, as he put it, “to hide the real owners and those making the management decisions at the airport.”

As is always the case when the plutocrats are getting ready to pull a fast one, the charge has a surface plausibility. The East Line Group’s ownership is byzantine, involving several companies registered in the Isle of Man. Yet somehow that never mattered while it

was spending all that money to build a more profitable airport. Besides, offshore ownership is almost as common in Russia as the corporate structure is in America; even state-owned companies often use an offshore structure. Why do companies go this route? In part, at least, to keep assets away from the grasping hands of the plutocrats.

Sure enough, a few days after the report, the news leaked out that a man named Igor Yusufov was putting together a group that hoped to buy a \$1 billion stake in Domodedovo. Who is Yusufov? He's a former energy minister who served under the Russian strongman Vladimir Putin. [According to The Financial Times](#), until a few months ago, he was also a special deputy to Medvedev. The Russian business newspaper Vedomosti described him as a potential "peacemaker" between the government and the airport's owners.

Well, yes, that's one way of describing him. Here's another way, the way most foreign investors saw it. He was using the report to squeeze the airport's owners and get a piece of a thriving company at a shamefully low price. Is it any wonder the I.P.O. was soon called off? How can anyone invest in a Russian company that is being shaken down by the government? That threat, which looms over every private venture in Russia, had become all too real for the owners of the Domodedovo

airport.

This same dynamic explains why Russia, despite its well-educated population, has so little innovation: As likely as not, innovators will be pushed aside by government thugs as soon as they achieve success and profits. It happens all the time. As *The Moscow Times* put it recently, “After seeing the way the authorities are strong-arming East Line, fewer investors will risk putting their time and resources into resuscitating a failing business or pumping money into a new one.”

As it happens, Russia itself has been trying to raise badly needed revenue by selling off pieces of state-run companies in I.P.O.’s. So far, it hasn’t been going very well. A handful have already been canceled. Every time, executives and officials have blamed “market conditions.”

In truth, as long as the plutocrats thumb their noses at the rule of law and steal corporate assets with impunity, no Russian company is going to get the price their assets may deserve. That’s the real market condition. It won’t change until the practice ends.

For that to happen, though, the plutocrats would have to start caring about their country — and not just themselves.

