

## Interview: Anatoli Panov



# Flagship of machine-tool industry struggles to survive

*Anatoli Alekseyevich Panov, 57, is general director of the Ordzhonikidze Moscow Machine-Tool Factory Share Society. He has worked in the machine-tool industry for 36 years, starting as a worker. He became the plant's chief engineer at the age of 34. Panov was elected general director in 1989, in a four-way contest where he received 87% of the votes of the factory's employees. Immediately before his election, he was engaged in scientific work. The author of some 800 scientific articles, including over 20 monographs, Panov holds the Candidate of Technical Sciences degree. He is also an inventor.*

*During the week of July 11, Anatoli Panov answered written questions from EIR. Rachel Douglas, who translated the interview from Russian, thanks Natalya Sotina of the Ordzhonikidze Moscow Machine-Tool Factory for her assistance with technical terms.*

**EIR:** Please tell us about the history of this factory. What was its role in the Soviet economy?

**Panov:** The Ordzhonikidze Moscow Machine-Tool Factory (abbreviated ZiO) is one of the leading enterprises of our machine-building sector. It was founded in the 1930s and began to produce turret lathes. Subsequently, as the output of turret lathes was gradually increased and it began also to produce multi-spindle automatic lathes and single-spindle semiautomatic lathes, never before manufactured in Russia, the factory became the leading producer in the U.S.S.R. of these types of machine tools, which were the most advanced ones we produced at that time. ZiO supplied its equipment to machine-building enterprises throughout Russia and the U.S.S.R.

From the ranks of the first generation of ZiO workers, the 1930s generation, came management, engineering, and scientific cadre not only for this factory, but for the entire machine-tool sector, as well as scientific research institutes.

In the very first days of the Great Patriotic War (1941-45), hundreds of workers, engineers, and managers left the plant for the front. Most of them perished. Their wives and children took their places at the factory. Thanks to this patriotic upsurge and at the cost of colossal efforts, the factory was able sharply to increase output during the first months of

the war, despite the enormous difficulties. Between October and December 1941, the plant's equipment was evacuated to a remote region of the country, but by the spring of 1942, machine-tool production was resumed. During the war, ZiO provided industry with 6,000 highly productive, reliable machine tools of various models.

**EIR:** What was the importance of this factory right after the war?

**Panov:** The factory's role in solving major tasks for the national economy grew markedly in the period of postwar reconstruction and thereafter. ZiO began to produce automatic transfer lines, transfer machines, and special machine tools.

In January 1946, ZiO produced its first five transfer machines and, in May of that year, the first automatic transfer line for the Likhachov Factory (ZiL) [one of the Soviet Union's first two large auto plants]. From 1946 on, ZiO supplied these lines, for the mass production of very complex parts, to practically all branches of the machine-building industry.

**EIR:** What was the economic impact of your machine tools and conveyor lines at that time? How did ZiO machine tools compare with their counterparts produced abroad?

**Panov:** Installation of our factory's products at enterprises in various branches of industry yielded a sharp increase in labor productivity and economy of labor power, and made it possible to introduce advanced technologies and improve the organization of production. At the same time, the factory made a significant step forward in the development of automatic and semiautomatic machine tool production: The 1930s-model machine tools were replaced by many new, original, automatic and semiautomatic lathes, which substantially increased our productive and technological capabilities.

In the postwar years, ZiO developed an array of centering-milling machines and began to produce transfer lines for machining of various rotary-type parts. One of the first of these lines won the Gold Medal and the Grand Prix at the Brussels World's Fair in 1958. In 1959, the factory produced

the U.S.S.R.'s first numerically controlled (NC) semiautomatic lathe. An analogous semiautomatic lathe, of a smaller standard size, was shown at the Soviet Industrial Exhibition in London in 1961.

From the 1950s through the 1970s, ZiO transferred a number of its production areas to other plants in the U.S.S.R. Production of turret lathes was shifted to a factory in Alapayevsk. Production of two models of semiautomatic hydroduplicating lathes moved to a factory in Yeisk. Production of five models of centering-milling machines went to a plant in Kostroma. ZiO personnel helped set up the new production on site in each of these cities.

**EIR:** From what you have said, your factory had more than a rank-and-file role in the machine-tool sector.

**Panov:** That's right. From the early 1960s on, ZiO helped to train managers, engineers, and skilled workers for new machine-tool plants.

In the 1960s, the factory increased the output of automatic lines to the level of 42 per year. In the 1970s, it produced most of the equipment for the Volga and Kama Automobile Factories (VAZ and KamAZ), and equipped other important plants: the Minsk Motor Factory (in Belarus), the Lenin Komsomol Light Automobile Factory in Moscow (AZLK), the factory in Taganrog that produces "Kolos" and "Niva" grain-harvesting combines, and others.

**EIR:** Were improvements made during this work?

**Panov:** Throughout its history, the factory has constantly worked on this, developing and improving NC machine tools and transfer lines with semiautomatic hydroduplicating, and centering-milling machines. Our flexible transfer lines for machining tube-shaft type parts (diameter less than 250 mm, length less than 1,800 mm, weight up to 250 kg) have NC machine tools and are equipped with two-hand industrial robots, also manufactured at ZiO.

The factory has rebuilt its shops several times, making it possible to increase the floor space available for production, to equip the machine shops with new, more productive and precise equipment, and to install in the assembly shops stands for testing units and assemblies and means for mechanization of assembly.

In 1978, ZiO became the leading enterprise in the Moscow production association, the Sergo Ordzhonikidze Machine-Tool Factory. It continued to specialize in production of transfer lines, transfer machines, and special machine tools, for machining both frame parts and rotary-type parts, used in serial and mass production at enterprises in our country and abroad.

**EIR:** Was there demand for ZiO products outside the U.S.S.R.?

**Panov:** In the 1970s, our factory mastered many modifications of NC machine tools, based on the CNC (computerized

numerical control) system, which were delivered to many countries: the Federal Republic of Germany, France, Austria, Finland, Sweden, Japan, and Canada.

In 1981, ZiO was awarded the international "Golden Mercury" prize for strengthening international trade relations. In December 1982, it received the Order of the October Revolution for its large contribution to domestic machine-building, particularly the supply to industry of highly automated metal-cutting equipment.

In addition to the aforementioned metal-cutting equipment, ZiO designed and could produce on order from customers:

- a CNC special gantry-type semiautomatic lathe and planer for machining wheel sets with a diameter of 1,400 mm, length of 2,500 mm, and weight of 4,000 kg;
- a special semiautomatic double-carriage turning and rolling machine for machining railway-car axles;
- center-chucking processing units for machining parts with a diameter of 630 mm (over the guideways) and 400 mm (over the carriage), and a length of up to 1,800 mm;
- special CNC frontal-type double-spindle lathes for high-precision machining of complex oval-barrel profiled piston surfaces, with a diameter from 60 to 150 mm and a length of 70-175 mm;
- high precision CNC single-spindle double-carriage center-chucking semiautomatic lathes for machining complex profiled parts with a diameter of 850 mm (over the guideways) and 500 mm (over the carriage) and a length of up to 3,000 mm or more; as well as other special equipment and various consumer goods.

**EIR:** What is the situation of the enterprise since the start of the so-called market reforms of Yeltsin and Gaidar in January 1992?

**Panov:** The situation of the Russian machine-tool industry, including our plant, has been deteriorating since the moment the market reforms began, and even somewhat earlier.

Skilled machinists have been and are being let go. They go to other organizations and enterprises, to small firms where the pay is rather higher—in some cases, several times higher—than at the factory. At least it provides for their subsistence. Many former workers from this factory, in their search for a wage on which it would be possible to support a family, quit the machine-tool sector altogether. People cannot live today on income from work in production.

The demand for machine tools and transfer lines has fallen, not because they are not needed, but because the customers do not have the money to purchase them. Some factories which placed orders for our products, for custom-made equipment that has already been produced by us on order, refuse to take delivery because they lack the money to pay, resulting in big losses for our factory, because these special, highly productive machine tools have to be destroyed.

Our economic ties have broken down with many supplier

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factories, which provide the components and materials for producing machine tools and transfer lines. Those suppliers located in Commonwealth of Independent States (CIS) countries have either shut down, are being retooled, or demand payment in freely convertible currencies.

**EIR:** What is your attitude to economic and financial assistance from the West today?

**Panov:** Our factory did not depend on assistance from the West. I believe that the majority of comparable enterprises, engaged in production, also did not. In general, it is my view that aid, as such, teaches people not to utilize their own reserves (and ours are not small, even in our half-destroyed and half-looted country today), accustoms them to dependence, and creates conditions that undermine any striving to raise the technical and technological level using one's own forces and mind.

This is easy to see from an analysis of the structure of our exports and imports: The country is more and more becoming a market for the sale of low-quality western goods and a supplier of raw materials and fuel. Genuine aid should be expressed in equal relations of partnership, participation in joint R&D projects, and complex capital-intensive projects and so forth, oriented toward opening a market for Russia or by state orders.

**EIR:** What would be the consequences for Russia of the complete economic collapse of your firm and the machine-tool sector as a whole?

**Panov:** Russia would have to pay in gold or freely convertible currencies for machine tools, which would have to be purchased abroad, since Russia cannot exist as an industrially developed state without machine tools. After the defeat of fascism, you probably know that Germany made reconstruction of its machine-tool industry the first order of business.

**EIR:** Please describe the specific problems confronting your enterprise during privatization.

**Panov:** The situation of our factory regarding privatization is typified by growing dependence on the commercial banks, which will ultimately turn into total dependence. It is chiefly these banks, through the so-called voucher auctions (when banks have the opportunity to purchase ZiO shares for privatization vouchers, which they have acquired from the popula-

tion—at below market price, as a rule—by working through individuals or specially created juridically registered firms as their proxies), that have come into possession of the majority of the shares of our share society.

**EIR:** What will happen to the company, if events continue in this direction?

**Panov:** I think (although I am doing everything in my power to prevent this) there is a high probability that, under the pretext of creating an industrial-finance company, our factory will end up as the property of individuals from the finance companies and commercial banks. In that case, I believe that ZiO will cease to exist as a machine-tool company, not because—I emphasize again—it produces unneeded goods, but because its new owners are not going to invest their funds in complex and expensive production processes. They will prefer to free up the shop floors for the now extraordinarily profitable business of warehousing imported goods, as well as for rental as office space to various firms. In light of what I have said about the unique nature of ZiO, I am absolutely convinced that this is wrong from the standpoint of the national interest.

Something else is also clear: Even if a private entrepreneur today wishes to invest money in production, never mind a firm such as ours, he cannot do so without suffering losses due to inflation, exorbitant taxes, the crime wave, and the authorities' refusal to abide by the law. Therefore, the state—if it wishes to remain an industrial power—cannot do without some form of state support to enterprises like ZiO.

Earlier, the government repeatedly assisted the factory in its development. This was done by leaders such as S. Ordzhonikidze, A. Kosygin, Yu. Andropov, and B. Yeltsin. But now the state, the Executive branch, regards the machine-building sector with indifference—except when it comes to collecting taxes. This is why the privatization of machine building in Russia looks more like its destruction. This is the picture, by the way, not only for machine building, but for practically all branches of Russian basic industry.

**EIR:** How do people react to western support for such processes?

**Panov:** Let me tell about what I know, the experience of our company. At the dawn of perestroika, before I was elected general director in 1989, factory director Nikolai Chikiryov

(an appointee of the Politburo of the Central Committee of the Communist Party of the Soviet Union and the U.S.S.R. Ministry of the Machine-Tool Industry) decided, or so it was announced, to get the enterprise out of an already difficult economic situation by attracting "advanced western technology." Chikiryov and a businessman from the German firm Heinemann, Rainer Lang, established a joint enterprise called Homatek, one of the first in the U.S.S.R.

This appeared to be a fine undertaking, to attract foreign investments. But what really happened? R. Lang turned out to be the director of a little workshop in a small German firm, employing only 200 people. As one of the incorporators of the joint venture, our plant transferred to it a portion of the assembly capacity and floor space, while the German side provided only organizational equipment: notebooks, paper clips, folders, tape recorders. ZiO relinquished to Homatek its rights to act on the foreign market, conclude contracts and set prices on exported goods, and establish ties with foreign partners. Without producing a single machine tool, Homatek took over all of ZiO's production, with the exception of electronics and hydraulics. Profits from the sale of machine tools in the West went to the joint venture. In addition, R. Lang was buying and reselling in the West obsolete equipment as scrap, but he benefitted from tax and other breaks by recording it as new. The technological center planned in the joint treaty, Lang intended to transform into a first-class hotel bringing in 1 million deutschmarks per week, while the factory's share was DM 1 million per year.

Thus Homatek flourished and its employees received huge wages, while the factory, on whose labor the joint venture was in effect a parasite, was unable to increase its output of machine tools, and its financial situation was deteriorating. How do you suppose the hundreds and thousands of workers at the factory, who saw this happening before their very eyes, came to view this example of capitalist enterprise?

This was not business it all. It was just a deal among thieves, to get rich by looting the property and the labor of the ZiO workers, between the typical representative of the Party and economic *nomenklatura*, N. Chikiryov, and the German adventurer R. Lang. I think that there were more influential figures behind Chikiryov, who became fairly wealthy at the factory's expense. Both were absolutely indifferent to the fate of the plant and the people who worked there.

Honest cooperation with foreign companies is another question. I hope that we will have a model of such cooperation in our joint projects to produce machine tools for the railroad industry, with the Simmons Machine Tool Corp. We are currently negotiating with them.

**EIR:** In 1989 you were elected director and returned to your factory. What did you find?

**Panov:** I found the enterprise in decline. It was many millions in debt. The state plan for production had not been met.

But by the end of my first year, the factory sharply increased output for the first time in 10 or 15 years. While in 1988, Chikiryov had managed to produce only 648 machine tools, we produced 725 in 1989.

After investigating the Homatek affair, I made it clear to R. Lang, who did not want to give me (as representative of the co-incorporator) any account of the joint venture's performance, that unequal relations were at an end. From that moment on, he and his friends and protectors in the U.S.S.R. Ministry of the Machine-Tool Industry launched a war of annihilation against me. It was on their initiative that the Moscow city prosecutor fabricated a criminal case against me. R. Lang personally gave false testimony against me to investigators and before the court. He did not even hide his hostility and his motives, cynically stating in the presence of the prosecutor, "Leave the factory and we'll drop the case." In 1990, they finally managed to get criminal charges filed against me and remove me from work for three years.

During those years, the ministry mafia robbed and bankrupted the enterprise, handing out parts of it to private banks and commercial firms in exchange for bribes. Nobody bothered about production. They were just thinking about their own enrichment at any price.

When I returned to the factory in 1992, I found a horrifying picture: 649 million rubles of indebtedness on loans and payments to the state budget. Out of 404 million rubles of credit extended to the factory for its development, 150 million had been passed on to commercial structures and not returned. In 1991, only 400 machine tools were produced, a drop by almost half since 1989.

**EIR:** What is the company's condition today?

**Panov:** There has been a steep decline of production in Russian industry during the past four years of new, market economic conditions, which led to the decline of production at ZiO in connection with the reduction of orders for machine tools and transfer lines. The number of people employed at the factory has fallen by over half (from 4,000 to less than 2,000). The number of machine tools and transfer lines produced is down nearly to one-third.

Thus we face a serious problem of stabilizing industrial production and halting its decline. I believe this could be achieved by ceasing to import an unjustified quantity of equipment (at least those things we are capable of producing ourselves), price controls on all forms of energy (heat, water, fuel, electricity), since the cost of metal, castings, and so forth, as well as parts (electric motors, electrical wire, hydraulic equipment, etc.) needed for the assembly and tooling of the plant's products, rises in proportion to those prices.

It is possible and even preferable to maintain efficient machine-building enterprises through government subsidies, tax incentives, and state orders. But one way or another, support from the state is indispensable. The Executive

## Panov appeals to FBI director Freeh

*On July 6, 1994, Anatoli Panov sent the letter excerpted below to Louis Freeh, director of the U.S. Federal Bureau of Investigation, in care of the United States Embassy in Moscow. Freeh had just opened an FBI liaison office in Moscow (see EIR, July 22, 1994).*

Dear Mr. Freeh:

The U.S. government's determination to assist Russia in the struggle against organized crime gives me hope that you will give your attention to this appeal. In any case, I have nothing else I can count on. The law enforcement agencies here in Russia are in effect refusing to defend my rights as the lawful head of the largest privatized machine tool plant in Russia, the Ordzhonikidze Moscow Machine-tool Factory. . . .

On the contrary, law enforcement agencies have behaved so as in effect to abet reprisals against me by a mafia group that includes former leader of the Russia Federation Committee on Machine-Building A. Ogurtsov, V. Lobushev, and V. Golovlyov; this group has been attempting illegally to gain control of the company since 1990. In 1990, I was convicted of embezzlement, on charges fabricated by the Prosecutor's Office of Moscow, and removed

as general director. Only two years later was this unlawful conviction overturned by the judicial college of the Supreme Court of Russia. . . .

In August 1993, when privatization of the company had just begun under my leadership, there was an assassination attempt against me, which I survived by a miracle. I received life-threatening fractures of the skull, ribs, and legs. Despite direct government instructions to investigate this crime, the Ministry of Internal Affairs of Russia did not investigate. . . . This is typical in Russia today. Unlike others, I was lucky: I am alive.

At the present time, when the company's transformation into a private one has been completed, the mafia has escalated its pressure again. Once again, on an invented pretext, a criminal case against me has been opened and the Prosecutor's Office is again preparing to oust me from my post without any grounds. I do not exclude, that at this moment which is so critical for this factory, mafia elements may again attempt to eliminate me physically.

I should add that one of the first plans our company has, now that privatization has been completed, is to carry out a Russian-American joint project. I ask you, before it is too late, to insist to the competent Russian agencies that they conduct—jointly with the FBI—a thorough investigation of the situation around the application of illegal measures against me.

Respectfully,  
Anatoli Panov

General Director, Ordzhonikidze Moscow Machine-Tool Factory

branch's current policy on the machine-tool industry, and machine-building as a whole, is leading to a catastrophic collapse.

**EIR:** Under these conditions, what are your real possibilities as director?

**Panov:** In industry today, virtually everything depends on production infrastructure. But the director still bears full responsibility before the shareholders for the company's performance (making a profit, paying taxes, timely issue of wages, dealing with social problems). The director has to answer to the workers, as well, on all problems. People are most concerned about where I will get the money to increase their wages, when we have such inflation and a reduction of orders and utilized capacity.

What is to be done? I think we must halt inflation, review energy prices, establish tough control over the commercial banks, reduce interest rates, and introduce a precise system of regulating wages at enterprises in the state sphere and service sector, in order to prevent wage discrimination

against the productive sector, which is the basic source of tax revenues. As a taxpayer, the producer today is practically strangled by the budget control and Executive branch structures. Taxes due to the state budget equal as much as 50% of ZiO's profits in a year, for example. To function normally, an industrial enterprise should not be taxed more than 25% of its profits; the extra 25% goes to maintain a state bureaucratic apparatus which has grown huge, especially in the President's apparatus and the Executive branch as a whole, which today in Russia alone is double the size of what the entire U.S.S.R. had before.

I believe that the government will have to acknowledge that the "market reform" it carried out, understood as virtual total freedom of not only economic, but also criminal activity, has caused catastrophic consequences for the country and the absolute majority of its citizens. Shutdown and bankruptcy are now forecast for companies which did not die on their own, but were strangled. I state this with full responsibility, as a person elected to his post in 1989 by the absolute majority of the factory's employees. I am no "red

director," I am not an appointee of the Party economic *no-menklatura*, and not an agent of the mafia structures. I am simply trying to remain honorable before the people who placed their trust in me.

If we go much farther, the last skilled workers and specialists in machine-tool construction will join the ranks of the unemployed, aggravating the already explosive situation in the country.

**EIR:** Do you believe that what has happened at companies like ZiO is just the result of spontaneous market relations?

**Panov:** I do not think these processes are spontaneous. I believe that, in this instance, a unique machine-tool company, whose products were chiefly used for developing the domestic auto industry and agricultural machine-building, is being liquidated in full consciousness. This will lead to irreparable losses for the development of machine-building in Russia. It will either disappear, or belong to foreign capital. This means economic, and then political dependence on foreign countries, i.e., the loss of sovereignty.

**EIR:** Your relations with the authorities are no doubt complicated. Do you have enemies?

**Panov:** As the first and only elected (not appointed by the ministry) director of ZiO, I encountered great difficulties in relations with former Minister of the Machine-Tool Industry Nikolai Panichev, who did not want to come to terms with a director other than the candidate he wanted, as things had been for many decades. At first, Panichev tried to sabotage the elections, and when it became clear that he could not prevent them, he personally threatened me. So it continued in 1989, when I was elected and the factory not only fulfilled the state plan, but paid off over 10 million rubles of debt to the state, or one-fourth of the debt accumulated by my predecessors.

Panichev didn't care. He and Homatek proceeded with their plan to oust me from the company, exploiting their personal connections in the prosecutor's office. The criminal case fabricated against me for abuse of office served as the pretext. I had to fight for three years to prove my innocence. Only thanks to the objectivity of the Supreme Court of Russia were my labor rights reinstated. But neither Panichev nor the prosecutors were held responsible for their acts.

As the privatization of the factory neared completion, Panichev again attempted to remove me, since he needed his man in charge of the enterprise—someone who would act in the interests not of the company's collective, but of the ministry leadership. When all other arguments in the struggle against me were exhausted, evidently, the last and weightiest one came into play.

In August 1993, I was attacked in the entryway of the building where I live. I was brutally beaten with iron rods, suffering numerous fractures of the legs, ribs, and skull. The organizers of the attempt wanted me dead. It was only by a

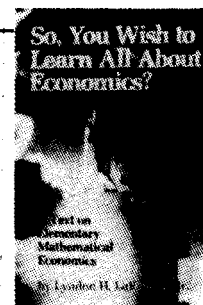
miracle, thanks to a robust constitution and speedy emergency medical help, that I remained alive.

Despite the fact that it should not have been hard to catch the criminals, since they most probably hid in that same entryway and the police arrived very promptly, the investigation has been going on for almost a year, but the attackers are still at large. The prosecutor's office has done nothing to conduct a speedy or thorough investigation of the attempt on my life. But now, the very same prosecutor's office is again fabricating a criminal case against me on another pretext, with the same goal of removing me from my post. [See box.]

President of Russia Boris Yeltsin and the government, by the way, should know about these intrigues against me, since already in August 1993, right after the attack on me, before I even regained consciousness, the workers of ZiO appealed to them, demanding a stop to ministry interference in personnel questions at ZiO.

I cannot exclude, that at present there are practically unhindered preparations under way for my moral, or even physical, elimination, in circumvention of the law. Those who today are planning my physical destruction know perfectly well that no one will stand in their way.

Nevertheless, I am an optimist. People support me. I have many devoted supporters and friends, who cannot be bought. I think we shall prevail.



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