

# Russia: At the End of An Oligarchical System?

by Roman Bessonov and Rachel Douglas

Yevgeni Primakov, former Russian prime minister and senior intelligence figure, does not customarily hold forth in public on internal political developments. That makes his Nov. 4 interview on radio Ekho Moskv (Moscow Echo) all the more striking. Primakov, who now heads the Russian Chamber of Commerce and Industry, assessed the departure of Alexander Voloshin from the post of chief of the Presidential Administration, as simply “good.”

Voloshin’s main function, Primakov said, had been to serve as “a link between the oligarchs and the upper echelon of the power structure.” There was a tacit understanding that “the oligarchs should pay their taxes honestly, pay wages and increase them, and contribute to necessary social programs in the regions where they operate; but refrain from wedging their way into positions of political power, and from corrupting society.” In exchange, “they obviously got some breathing room, in the form of a chance to appropriate a substantial portion of natural rent” (the term used by Academician Dmitri Lvov and other Russian economists for the proceeds of natural resource exploitation). As the intermediary, Primakov commented, Voloshin should have noticed in a timely fashion, that the oligarchs “were retreating from all these rules; and should have corrected the situation and brought them to their senses, saying that they couldn’t do this. But it turned out he was not so much a middleman as he was part of the oligarchical camp, because he allowed them to act as they did.”

In Russia the term “oligarchs” refers to a small group of enterprising, aggressive young wheeler-dealers who, as “partners” of Western mega-speculators like Marc Rich, George Soros, et al., exploited every opportunity in the course of free-market and privatization reforms, to seize the national wealth of Russia and build their own fortunes and power. Mikhail Khodorkovsky, the now incarcerated ex-CEO of

Yukos Oil and its successor YukosSibneft (after this year’s merger with Roman Abramovich’s Sibneft), is one of them. When Khodorkovsky’s arrest occasioned the resignation of Voloshin, a holdover from the regime of ex-President Boris Yeltsin—under whom the “oligarchs” made their great advances—nobody could ignore that a profound shift had occurred. (See “Russian President Backs Crackdown on Oil Magnate,” *EIR*, Nov. 7; and Lyndon LaRouche’s discussion of Russia in this week’s *Feature*.)

Finance Minister Alexei Kudrin could see it. Just before departing for Italy with Putin on Nov. 3, Kudrin told a *Kommersant* interviewer that the arrest of Khodorkovsky and resignation of Voloshin mark the end of an era in Russia. “With all due respect for Alexander Voloshin, I want to point out that his resignation marked the end of the Yeltsin period,” said Kudrin. “The Byzantine era has ended. . . . I know it will be better for Russia’s economy.”

With Dmitri Medvedev taking charge of the Presidential Administration, Primakov said that a high level of professionalism could be expected, as well as the formation of “a political center around the President, based on his advisors and aides,” not on bureaucrats. Economist Sergei Glazyev, a foe of the oligarchs since he quit Yeltsin’s Cabinet in September 1993, gave a similar evaluation. Interviewed Nov. 1 on ORT TV, Glazyev commented that it was, of course, President Putin’s prerogative to make such changes, and added, “Medvedev I know as a professional and responsible person. I believe his assuming this post will make the situation more clear and stable.”

Medvedev, who is 38 years old and holds a *kandidat* degree in law, worked with Putin in the St. Petersburg city government in the early 1990s. In his book *In the First Person*, Putin said they collaborated with a sense of comradeship. In 2000, Medvedev ran Putin’s Presidential campaign. Since

then, he has been first deputy chief of the Presidential Administration, in charge of Putin's daily schedule, coordination between the Administration and the government apparatus, and projected civil service reforms. Regarding the latter, RIA-Novosti on Oct. 31 noted Medvedev's advocacy of severe penalties for "inflicting damage on the state, giving illegal instructions, or disclosing state secrets." Novosti also quoted Medvedev as saying, soon after Putin was elected, "I know Putin's position: The oligarchs will be removed from power, all the same."

Medvedev has been the Russian state's representative on the board of the country's largest company, Gazprom (the chairman of its board), off and on since 1999.

On Oct. 31, Putin also named Dmitri Kozak as Medvedev's first deputy, and Igor Shuvalov as deputy chief of staff for relations with regional leaders. Kozak is another law graduate, who likewise worked with Putin in St. Petersburg. Since June 2000, as a deputy head of the Presidential Administration, Kozak has overseen judiciary reform, and handles liaison with the Presidential Representatives in the seven Federal Districts established by Putin. Shuvalov was recently put in charge of the Putin-mandate drive to double Russia's GDP—actually, for strategic economic planning.

## A Different Election Season

In mid-October, Russian sociologists projected that 40% of the members of the new State Duma, to be elected in December, would be lobbyists for big companies. The meddling of the oligarchs in Russian political life goes far beyond Khodorkovsky's financing of various political parties and candidates. The upper house of the Russian Parliament, the Federation Council, has degenerated into a crowd of interest-pushers, who formally represent the administrative districts of Russia, but often have nothing in common with the regions they are supposed to represent.

The outcome of the tragedy of 1993, when Yeltsin disbanded the elected Parliament by force, was to hand political influence to legal, semi-legal, and "black economy" interests. The period that followed was known as the *semibankirshchina*, "the rule of seven bankers"—after the *semiboyarshchina*, or "rule of seven boyars," during Russia's infamous *Smuta*, the Time of Troubles in the early 16th Century. In modern times, it meant that practically no state program, from space flight to education, could be implemented unless some the oligarchs kindly agreed to donate a part of their immense incomes to the state. And they used their money to get Yeltsin re-elected in 1996.

Khodorkovsky's Menatep Bank, in particular, serviced the contracts of Rosvooruzhenie, the state-owned arms dealership, as well as being an investor in the reconstruction of Chechnya after the first Chechen War (1994-96). A 1998 article in the periodical *Sovershenno Sekretno* (*Top Secret*) identified Khodorkovsky as a partner of the shadowy Chechen businessman Ruslan Dakhayev, founder of TEPCO Group,

## 'The Terminators': a Russian View



Russian President Putin cites the case of Enron for its relevance to the indictment of Russian oligarch Mikhail Khodorkovsky and other Yukos Oil executives on fraud and tax evasion charges. The November issue of the Russian monthly *Valutny Spekulyant* (Currency Dealer) carries a timely translation of Jeffrey Steinberg's article "Cheney's Energy Pirates Behind Schwarzenegger Recall Hoax" (EIR, Sept. 5, 2003), which is illustrated with this cartoon.

That's Warren Buffett and Dick Cheney in the basket. Headlined "The Third Coming of the Terminator," the article quotes Lyndon LaRouche's observation that "one imported Austrian head of state was enough." Lord Jacob Rothschild, a top sponsor of Schwarzenegger, also works closely with Yukos and its now-incarcerated CEO, Khodorkovsky.

known to any Moscow policeman as a cradle of organized crime.

## The Background of a Petty Tycoon

One of the phoniest of the phony arguments on behalf of thievery by the Russian oligarchs and their foreign partners, is that every capitalist economy must pass through its "robber baron" phase. But at least the monied families of American and European fame were in some way involved in building

up the industries that carried their names. Not so the Russian oligarchs.

Khodorkovsky started his career in Moscow, as second secretary of Frunze District Committee of the All-Union Leninist Communist Youth Alliance (the Komsomol). In 1987 the cooperatives reform, initiated by Mikhail Gorbachov, gave the green light not so much to craftsmen, agricultural producers, scientific designers, and physicians, as to certain institutional officials, especially in the district Komsomol committees, who received privileges allowing them to rev up their commercial ventures. Like other “centers of scientific and technological youth creativity,” the Inter-Industrial Scientific and Technological Enterprise, with the acronym Menatep, was quickly transformed into a trading company, its foreign connections facilitated by traditional links between the Soviet Komsomol and its counterparts in Eastern Europe. Years later, Khodorkovsky’s partner Leonid Nevzlin (now in Israel, hiding from prosecution) confessed that Menatep made its initial fortune in the business of importing adulterated spirits from Poland, under French labels. The “scientific and technological” activity of the co-op focussed on importing cheap computers, ultimately helping to collapse domestic computer production.

With support from top figures of the Communist Party of the Soviet Union and the Soviet trade apparatus, Menatep managed to establish an independent financial entity, Menatep Bank. The opportunistic younger generation marched eastward to Siberia and westward to Switzerland, searching for the most profitable uses of their capital. None of today’s international fighters against corruption and money-laundering lifted a finger to protect the citizens of Siberian towns, such as Nefteyugansk in Tyumen Region, against this aggressive invasion by half-criminal business interests, who took over not only the oil wells in these resource-rich territories, but also the social infrastructure, appropriating it with the assistance of corrupt local officials.

Khodorkovsky began to establish more far-reaching international connections as long ago as 1990, when he represented Soviet industry in negotiations with foreign corporate giants. In May 1990, the Foreign Geology Institute, Menatep Inter-Bank Group, and British JEBSCO Co., on request from the Soviet Ministry of Geology, convened an international meeting with representatives of Texaco, ARCO, Amoco, Unocal, Occidental, Elf Aquitaine, Statoil, Royal Dutch Shell, and Kuwait Foreign Petroleum Co. While acquiring international contacts, the company also moved to exploit opportunities for privatization swindles in the mid-1990s. In 1995, Menatep took over Yukos, one of the largest oil companies

in Russia. Rival banks presented documentation that Menatep had too high a foreign debt exposure to bid, but Menatep won the suspiciously hasty tender, paying \$350 million for Yukos—a company appraised at \$15 billion just half a dozen years later.

In 1996, after the oligarchs had secured Yeltsin’s second term and their own privileges, Yukos expanded its operations in various regions, amassing great wealth, but also making enemies who have become active against the company in recent months. These include leaders of the pulp and paper industry in northwest Russia, as well as fertilizer companies. One of the seven criminal charges against Khodorkovsky and Yukos today, arose on the initiative of Novgorod Governor Mikhail Prusak and local fertilizer company executives associated with him. In the State Duma, the issue of Yukos’ swindles during the acquisition of assets in this industry was raised by Vladimir Yudin, a member of United Russia Party from St. Petersburg.

In the era of the *semibankirshchina*, the oligarchs would have paid no attention to the concerns of provincial governors. When Putin introduced measures to make regions pay 70% of their revenues to the Federal treasury, the oligarchs interpreted this move to their own advantage. They were sure that, henceforth, governors could be treated as pawns. Thus the latest actions of law enforcement, and Putin’s refusal to take the side of the “trade union of the oligarchs,” bring a new lesson to Russian small businessmen, governors, and citizens: The state will no longer tolerate the topsy-turvy system of a criminalized economy. The charges brought against Khodorkovsky—tax evasion, embezzlement, and forgery—suggest nothing short of the end of privileges to violate the law, once granted by the Yeltsin regime.

The elevation of Medvedev, Kozak, and Shuvalov tells us that Putin does not wish to base his power on a balance among commercial clans. It may be that the President did not plan to make these radical staffing changes until after the 2004 Russian Presidential elections, though he himself told the Italian daily *Corriere della Sera* that they were long-planned. The combination of circumstances at home and abroad forced his hand.

In October 1993, just hours before the Russian Supreme Soviet came under artillery fire ordered by Yeltsin, Member of Parliament Mikhail Chelnokov stood with a small group of doomed supporters, and sang the song “The Swans” about the veterans of World War II: “It seems to me that the soldiers, who did not return from the bloody fields, have not sunk in the earth, but turned into white swans. . . . I look at the flock of swans, and I see a gap in it, which might be a place for myself.” The author of those verses was Rasul Gamzatov, the legend and pride of Dagestan in the Russian Caucasus. Neglected by Yeltsin but newly decorated by Putin a few months ago in the Kremlin, Gamzatov died on Nov. 3—probably believing that the time of disgrace of the great country of which his native land is an indivisible part, is finally coming to an end.

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