# Russia racked by crisis as globalizers demand more loot

by Rachel Douglas

The weeks of May and June are causing midsummer bad dreams for the London-centered oligarchy, addicted to globalized financial speculation and looting operations, and haunted by the memory of Russia's domestic debt freeze and government crisis in August 1998 and their worldwide aftermath.

Heading for a June 2 deadline on an $855 million London Club debt payment that it couldn't make, Russia was in the grip of such vicious political infighting, that there were three different people appointed, or nearly appointed, to the post of first deputy premier for macroeconomics, in the space of a week. For ten days, it was unclear who would be the Russian finance minister.

Sergei Stepashin, the career security official named to head the Russian government after Yevgeni Primakov was dumped by President Boris Yeltsin on May 12, has been approved by the State Duma (parliament), but his control is shaky. On May 29, when the cabinet was meeting without a first deputy premier for macroeconomics—former Finance Minister Mikhail Zadornov having resigned, rather than be dictated to by the clique around Yeltsin's family—the widely read business paper *Kommersant-daily* pronounced, "The cabinet has collapsed. Whether or not Stepashin resigns, he is no longer head of the cabinet."

Russia specialist Prof. John Erickson of Edinburgh University told *EIR* on June 1, "I expect this Russian government of Stepashin to last six weeks or so. What is happening there now, is very bad. It's the return of cabal politics, and the return of [financial operator Boris] Berezovsky. It's the last chance saloon to drink vodka, before something very significant happens there. Underneath the surface, there are a number of things happening, such as testing tactical nuclear weapons. In any case, the current crowd won't be in power for long, in my view."

## Global debt bomb

Writing in the weekly *Zavtra* of May 25, economist Sergei Glazyev, head of the Center for Information and Analysis at the staff of Russia's Federation Council, reminded of the international impact of the looted Russian Treasury's inability to service the foreign debt. "In effect," said Glazyev, "default has already occurred, since we deferred payments many times. On the whole, it is not in Russia's interest for the default to be juridically certified, since it is not desirable for us to be completely isolated from the world financial market. But a Russian default is also disadvantageous for the West, especially the United States. *This is because a refusal by Russia to service its foreign debt, juridically certified, will make a rather grave deterioration of the financial positions of key Western banks, which do business with us, and that will provoke an avalanche effect in the world financial system*. . . . A default, followed by the isolation of our country, could quite well provoke the crash of the entire financial market in the West." (See p. 11 for Glazyev's assessment of the Primakov government's achievements.)

International bankers are attuned not only to the potential for Russian non-payment to touch off shock waves, the way the freeze on servicing short-term government bonds (GKO) last year triggered disaster for Long-Term Capital Management and other hedge funds that had bet the wrong way on GKO yields and related derivatives, but above all to the potential survival impulse on the part of nations. After all, in the wake of the Russian GKO freeze and the LTCM debacle, came a surge of national actions to form a "survivors' club"—from Malaysia's imposition of exchange controls on Sept. 1, 1998, to Russia's own prioritzation of national survival over debt service, under Primakov. Lyndon LaRouche's "New Bretton Woods" design was coming onto the agenda.

In the recently released annual report of the Bank for International Settlements, BIS Managing Director Andrew Crockett carries on about how last year's "sense of foreboding" is gone, but he also declares with some urgency that "the real task now is to improve the [international financial] system we have, *before suggested alternatives begin to look more attractive* than they really are." About Crockett's voiced fears of the attractiveness of "suggested alternatives," LaRouche commented on May 31, "Wait until you see *next* month!"

### Roulette in the Finance Ministry

On May 27, then-First Deputy Premier Zadornov, amid rumors about his own status and the composition of the new cabinet, briefed the press on the first cabinet meeting under Stepashin. The main item on the agenda was a report from Central Bank Chairman Viktor Gerashchenko and Economics Minister Andrei Shapovalyants, on "the program of economic policy that has been agreed upon with the International Monetary Fund and the World Bank" by the Primakov government, as the basis for the issuance of IMF loans.

The IMF rollover amounts to $4.8 billion, to be used to make payments due from Russia to the IMF. The package included tax laws, to be passed by the State Duma, but that action has been delayed for nearly a month by the Duma's attempted impeachment of Yeltsin and the latter's ouster of Primakov. Zadornov pointed out that the Duma recesses on June 20, by which time the IMF-demanded laws must be passed.

The direct debt payments to the IMF are an important component of Russia's sovereign debt, but the package deal is of overreaching importance. Its finalization was supposed to be the go-ahead for the latest restructuring of Russia's Paris Club (state to state) and London Club (commercial) debt, inherited from the Soviet Union. While making interest payments on Eurobonds issued by independent Russia during the 1990s, Russia is not paying on the Soviet-era debt.

On May 26, Finance Ministry official Mikhail Kasyanov (subsequently confirmed, disconfirmed, and reconfirmed as Finance Minister in the new cabinet), stated that Russia was seeking "a new rescheduling" of the London Club debt, "by the end of the year." Meanwhile, Russia would not be able to pay the $855 million due June 2 on PRINs and IANs, which are restructured principal and interest, respectively, of the London Club debt. Russia also missed its $724 million PRINs payment in December 1998, but the London Club steering committee declined to make a formal determination of default.

## Wall Street hedge fundies push for Russian default

A group of creditors holding about $3 billion of Russia's total London Club debt (which comprises $22 billion in PRINs and $6 billion in IANs—the restructured principal and interest notes, respectively), is trying to force the issue of default. The group apparently consists of hedge fund operators and so-called "portfolio managers." Ten of them, including Gramercy Advisors (New York) and Appaloosa Management (New Jersey), have formed the Russian London Club Portfolio Managers, Inc. Gramercy managing director Mark Helie told Reuters that the large banks on the London Club steering committee were too ready to roll over the Russian debt, because they care about continuing to do business with Russia, whereas these funds just want their "investments" serviced.

The new group is not represented on the London Club steering committee, which is to decide by June 6, how to respond to the missed June 2 payment. The London Club declined to make a determination of default, when Russia missed the Dec. 2, 1998 payments.

The split mirrors what happened early this year with the committee of foreign holders of Russian GKO bonds, in which the speculation specialists at Crédit Suisse First Boston resisted the move by Chase Manhattan, Deutsche Bank, and others, to accept Russian redemption offers that entailed big losses.

Helie and others are talking about mustering 50% of the PRINs holders and/or 25% of IANs holders, to force a default. He was quoted by Reuters, "If Russia fails to remedy the default, we may take legal action in the London courts, because the underlying loan agreements are subject to U.K. law," and then, in this scenario, Russia would be "ordered" to pay the entire $28 billion!

Key personnel of these funds are veterans of a Wall Street intelligence operation, run by John Irwin III—a discreet, but active figure in the operations of the American Family Foundation (AFF) and Cult Awareness Network (CAN) against Lyndon LaRouche in the 1980s. John Irwin III is President of the Bodman Foundation, which, along with the Achelis Foundation, was a key source of funding for the AFF, mother of CAN. Irwin's BPI Capital Partners took over Gramercy Emerging Markets Fund, which deals in dollar-denominated sovereign debt, in April of 1999.

*—Rachel Douglas and Roger Moore*

## 'I'm in charge'

The formation of Stepashin's cabinet was marked by appointments, near-appointments, and corrected appointments throughout the week of May 24—signs of a power struggle that on the May 27 featured Premier Sergei Stepashin saying to his cabinet: "I want once again to state that the government is run by the head of the government." Stepashin was alluding to an "I'm in charge here" statement by First Deputy Premier Nikolai Aksyonenko, in an interview to Radio Ekho Moskvy, that he will oversee the cabinet's work "in all fields." On RTR television May 26, Aksyonenko continued in this vein, saying that while he would be first deputy premier for the "real economy" and Zadornov was First Deputy Premier for "macroeconomics," the arrangement would "provide for a certain operational subordination of the block headed by Mikhail Zadornov, in relationship to the real sector."

*Moskovsky Komsomolets* suggested that this refers to a plan for the so-called natural monopolies to be under Aksyonenko; allegedly, it was when Duma Budget Committee Chairman Aleksandr Zhukov "found out that control of the natural monopolies would be given to Aksyonenko," that he rejected the first deputy premiership, because "an economics chief with no control over the levers on the basic financial flows of the country is worthless." The natural monopolies comprise the railroads, the national utility UES, Gazprom, state shares in major oil companies, and so forth.

On May 24, Stepashin and Presidential Administration chief Voloshin flew to meet Yeltsin at a resort in Sochi, only to find Askyonenko there in advance of them. The next day, came reported appointments of Zhukov as first deputy premier (Kremlin leaks later said the decree on this was "prepared, but not signed"), followed by the actual appointment of Zadornov to the post. Then, Zadornov quit, ex-Deputy Premier Viktor Khristenko (under Sergei Kiriyenko, last year) was named first deputy premier for macroeconomics, and Zadornov returned as official liaison to the IMF, with the titular rank of first deputy premier.

Other appointments to the new cabinet reflect the clan warfare that is roiling Russian politics. According to an article by John Helmer in the Singapore *Straits Times,* Georgi Gabunia had been told by Stepashin that he would stay on as Minister of Trade, but "then Aksyonenko told Stepashin he preferred Mikhail Fradkov, the former trade minister." Former tax chief Georgi Boos likewise said he had been assured of keeping his post, but then was replaced by Aleksandr Pochinok—because, Boos said, he refused to break his political association with Moscow Mayor Yuri Luzhkov.

## The natural monopolies

As Zadornov's fate in the cabinet hung in the balance, *Kommersant-daily* identified the personnel behind Stepashin's humiliation, first in Sochi, where he was forced to discuss the structure of the government "under the attentive supervision of Nikolai Aksyonenko, representing the interests of the 'family oligarch' Roman Abramovich," and then in Moscow, where "Yeltsin dragged him out of a soccer match, in order to 'disengage' the fighting Aksyonenko and Zadornov."

Roman Abramovich is a 33-year-old official of Sibneft, and a business partner of Berezovsky.

Nikolai Aksyonenko, now Russian first deputy premier, was made Railways Minister in early 1997, brought in by the Anatoli Chubais-Boris Nemtsov team to replace a rail minister who had opposed the idea of carving up the railroads and other "natural monopolies." Nemtsov was in charge of this planned natural monopolies reform, which was ostensibly to increase efficiency, but was being designed in such a way as to increase the potential for looting and asset-stripping. The national rail system is one of the biggest economic entities, still employing over 2 million people.

Aksyonenko insists that "I only met Boris Berezovsky one time," but Berezovsky and his partner, Roman Abramovich of Sibneft oil company, have been pushing his status and authority. In any event, there is ample evidence in print that Aksyonenko succeeded in launching an array of lucrative trade and export enterprises of his own, during his years at the Oktyabrskaya Railway and then as deputy minister and minister. The business deals include a fertilizer exporting company called Akkus, dealing in apatite, and a Swiss-chartered firm called Eastern Fertilizer Trading, in which Aksyonenko's son is an official. An article in the intelligence magazine *Sovershenno Sekretno* (*Top Secret*) recounted these deals in November 1998.

Aksyonenko presided over a meeting at the Oil and Gas Ministry on May 27. It was reported that he arranged an increased Iraqi oil import quota for Sibneft. Although Sibneft denied that this was so, Aksyonenko did propose that Russia increase coal production for domestic use, allowing for bigger exports of oil and natural gas.

*Kommersant* wrote the next day about Aksyonenko's likely attack on the current Central Bank leadership of Viktor Gerashchenko, as motivated by "the lucrative nature of control over the natural monopolies: Gazprom, United Energetic Systems, Ministry of Railroads, and Transneft. The total financial flows circulating through them, including barter and monetary surrogates, is estimated at $50 billion annually. . . . Personal profits may be extracted from natural monopolies in a lot of ways. The macroeconomic basis for these illegal incomes is provided by increased fees for services, which create non-payments and non-monetary circulation. . . . This situation can be practically changed only by efforts of the Central Bank, Tax Ministry, State Customs Committee, and the Federal Service on Currency and Export Controls. . . . That is why Nikolai Aksyonenko has challenged Viktor Gerashchenko."

The day before, Russian Prosecutor General Yuri Skuratov—still officially in office because of parliamentary support, despite being fired by Yeltsin—had been prevented from flying to Switzerland. Skuratov was to have attended a conference on fighting corruption and organized crime, to which he had been invited by Switzerland's Chief Prosecutor, Carla Del Ponte. She had been in consultations with Skuratov over tracing flight capital to Swiss bank accounts, and the case of the Mabetex company, in particular, which touches on the financial speculators, now on the upswing, who operate with and around President Yeltsin's family.

# Primakov government in retrospect

*Russia's former Prime Minister Yevgeny Primakov. According to Russian economist Sergey Glazyev, his government stabilized the economy, but failed "to do battle with the oligarchs on behalf of domestic goods producers."*

*Russia's former First Deputy Premier Yuri Maslyukov, ousted with Prime Minister Yevgeni Primakov on May 12, wrote an article for* Pravda *of May 19, titled, "The Fault of the Primakov Government Is That It Saved Russia." When Primakov came in, recalled Maslyukov, things had come to ruin, due to his predecessors' economic policy, the world financial crisis and the panicky actions of Aug. 17, 1998 (the 34% devaluation of the ruble and freeze on domestic debt payments). Industrial production was plummeting, the banking system was paralyzed, there was a payments crisis, some railways had stopped transporting freight, and real incomes were at the level of January 1992. The "young reformers" (in the Kiriyenko government) had paid no attention to preparing for winter.*

*The Primakov government's actions allowed Russia to escape socioeconomic catastrophe and bloody political chaos, and began to achieve success in economic reforms. "It is possible he will not be forgiven for this," Maslyukov concluded.*

*As the commentator in the May 25 "Business Club" column in the weekly newspaper* Zavtra, *prominent Russian economist Sergei Glazyev analyzed the legacy of the Primakov-Maslyukov government—what it accomplished, and what was left undone, but might still be done in the future. Glazyev's discussion, which appeared in Russian on the Internet site of* Zavtra, *is excerpted below in translation by* EIR. *Subheadings have been added by* EIR.

I shall begin our discussion of the work of the Primakov-Maslyukov government with official data from the State Statistics Committee. According to that data, industrial production increased by 23.8% from October 1998 through March 1999. This can be called an economic miracle. . . . Industrial growth of 10% per annum is considered a great achievement. We have just experienced nearly 24% growth in half a year, and 11% in March alone. What is also surprising, is that this economic growth took place in a setting of declining inflation, which fell from a 35% monthly level to 3% per month. In analyzing these facts, it should be noted at the same time, that the Primakov-Maslyukov government adopted virtually no special measures to stimulate economic growth. It resulted chiefly from simply maintaining the macroeconomic conditions, favorable for the growth of production, which came about after Aug. 17 [1998]. Hopes for political stability were also a factor.

Many industrialists and entrepreneurs believed that this was a government of social partnership, which was prepared to solve practical problems and go half-way to meet the desires of business circles, linked with domestic production.

The macroeconomic conditions, which changed after Aug. 17 and worked in favor of growth, included a fourfold devaluation of the ruble, which brought about significant demand for domestically produced goods, almost immediately giving an impulse to their production. Moreover, the government blocked attempts to set up various sorts of new financial pyramids. In September-October, for example, the Central Bank and the Ministry of Finance very much wanted to set up the latest such pyramid, first in the form of seven-day GKO (short-term government bonds), and then with zero-coupon Central Bank bonds with 40-50% yields. The Central Bank launched this activity illegally, since it had no license, but very aggressively. Nonetheless, it was prevented from setting up this new financial pyramid.

The government also managed to pressure the Central Bank not to raise interest rates. Under the Kiriyenko-Fyodorov-Chernomyrdin program, Russia was supposed to have