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Autumn of the Oligarchs?

By Andrew Meier

The two fateful questions of Russian history are, "What is to be done?" and "Who is to blame?" Now, almost four years into the presidency of Vladimir Putin, who came into office asserting that Russia needs a "dictatorship of law," Russians are asking a new question: "What is to be done with those who are to blame?"

Black humor has long been part of the Russian character, of course. But events of recent weeks have caused this question to be considered with a new seriousness. With the arrest last month of Mikhail Khodorkovsky, the former chief executive of Russia's largest oil company and Russia's richest man, Mr. Putin has at last given his own answer.

The arrest of Mr. Khodorkovsky is not about money — though the state would enjoy controlling the oil company, Yukos. Instead, with parliamentary elections on Dec. 7 and the presidential election next March, this is a battle for the right to set Russia's course.

Mr. Putin is expected to carry the Duma and to win re-election. But in Moscow, unlike in Washington, the fight for the spoils starts before an election, not after. The siloviki — the men who, like their boss, ascended to the Kremlin from the security services — have won this round. They have taken Mr. Khodorkovsky captive. In their eagerness to please their leader, however, they have undermined Mr. Putin.

In the days since the arrest of Mr. Khodorkovsky, Mr. Putin has watched the stock market tumble, his chief of staff quit and his loyal prime minister break ranks. For the first time since he was appointed acting president by Boris Yeltsin, Mr. Putin has heard his compatriots, whether critics or champions, debate his chances for survival.

None of this needed to happen. The stock market was among the world's hottest, the central bank's reserves were up and Moscow brokers basked in a sense of tranquility that almost rivaled Geneva's. The current offensive has put the lie to the notion, popular in Washington and Moscow, that Mr. Putin's rule, whatever its faults, guarantees political stability.

Only the siloviki, in their heavy-handed prosecution, could have turned Mr. Khodorkovsky into a prisoner of conscience. Once the bad boy of Russian business, in recent years he had morphed into its poster boy. The birth of Yukos, after all, was a rather untidy affair. In 1995 Mr. Yeltsin handed over to the oligarchs Russia's most valuable assets — the state monopolies in oil, metals and other sectors — in exchange for bankrolling his re-election. In an auction run by his own bank, Mr. Khodorkovsky paid only \$309 million for the controlling stake in Yukos. Earlier this year, after Yukos merged with Sibneft, it boasted a market value of \$45 billion and was the world's seventh-largest oil company.

Mr. Khodorkovsky, who is the son of factory workers and grew up in a communal apartment, had come a long way. He had weathered the crash of 1998, when Russia overnight devalued the ruble and defaulted on its debt. He had survived the scandals a year later, when American investigators alleged that as much as \$10 billion had been laundered from Russia — in particular, from his bank, Menatep — through the Bank of New York. He had hired a corps of publicists and lawyers, lobbyists and accountants. He had shed his denim suits, clunky Soviet-style glasses and even his reclusive nature to become

Russia's brightest star on the global finance circuit. He learned to speak with ardor of corporate governance, transparency and shareholder rights.

Mr. Khodorkovsky also had an insurance plan: a krysha — a term from the Soviet era that literally means "roof" and gives one protection, in his case from the government. Mr. Khodorkovsky's mistake, however, was that he dared to imagine he could build a stronger krysha than anyone in Russia — a Western krysha.

Vladimir Putin may be painting Russia into a corner.

His quest led him from Moscow to Houston and New York and, eventually, to the White House. In 2001, Yukos set up a foundation. (Mr. Khodorkovsky called it the Open Russia Foundation, an echo of George Soros's Open Society Institute.) For the board Mr. Khodorkovsky enlisted Henry Kissinger, Lord Rothschild and a former United States ambassador to the Soviet Union.

Then, last summer, Mr. Khodorkovsky courted Exxon Mobil and ChevronTexaco, hoping to sell a large chunk of Yukos. The deal, for as much as \$20 billion, would have ensured the company's future. It would have also made Russia one of the West's primary sources of non-Arab oil.

Washington took the bait. In September, George H. W. Bush came to Moscow to give a speech at a dinner held by the Carlyle Group, one of the world's richest private equity funds. Rumors still swirl as to the real reason behind the dinner, but this much is known: Mr. Khodorkovsky, who now sits in Moscow's Matrosskaya Tishina prison, also sits on a Carlyle advisory board with the secretary of state under Mr. Bush, James A. Baker III.

At the same time, Mr. Khodorkovsky went on a charitable spree in Washington. Some recipients now prefer anonymity, but a partial list of his beneficiaries ranges from foundations to think tanks to the Library of Congress. In 2002, the National Book Festival, beloved project of Laura Bush, received a \$100,000 donation from the foundation. Along the way Mr. Khodorkovsky met Condoleezza Rice and Vice President Dick Cheney and even had his photograph taken with the president and first lady.

For the men in the Kremlin who came of age coveting East German suits and Bulgarian holidays, this was too much to bear. It was time, the siloviki calculated, to act. Although the siloviki are usually portrayed as men of the K.G.B., in truth they represent a greater range of the old order. They come from the armed forces — the generals responsible for the blood bath in Chechnya — from law enforcement, from the tax police. Under Mr. Yeltsin, the oligarchs and organized crime "authorities" had privatized entire units of these state servants. Under Mr. Putin, with loyalty and duty the new coins of the realm, for the siloviki, no matter the uniform, there is one ultimate krysha: the Kremlin.

Mr. Khodorkovsky's current residence is seen by many as proof that the siloviki are in control. Nothing could be further from the truth. Just as Mr. Yeltsin's reliance on the oligarchs to bankroll his re-election in 1996 laid bare the bankruptcy of the state and the impotency of the president, so Mr. Putin's turn to the siloviki reveals his weakness.

The Khodorkovsky case is only the

latest round of the state campaign against the oligarchs. There may well be more, as oligarchs like Vladimir Potanin, owner of the Norilsk Nickel metals conglomerate, know well. But the assault has reached a precipice.

Mr. Putin is above all a believer in the state over the individual. He may well see the Khodorkovsky case not as another arbitrary abuse of the law, but a leveling of the playing field. He may genuinely wish to rid Russia of its oligarchy.

But the current offensive may come back to haunt him. In 1996, at the economic conclave in the Swiss resort of Davos, the oligarchs called a truce. In the face of a Communist revanche, they united around Mr. Yeltsin to ensure his second term. Now the surviving oligarchs, numbed and fearful, are already talking of another meeting — not to field a candidate for next spring's presidential election, but to search for Vladimir Putin's heir. □