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The Political and Economic Results of November 2012

In November 2012, RF Minister of Defense Anatoly Serdiukov, accused of abetting corruption in his ministry, was sacked from office; former Deputy Minister of Regional Development was arrested; criminal proceedings against the managers of Rostelekom and the former top officials of the RF Ministry of Agriculture began to be pursued more vigorously. All those developments were comprehensively covered and commented on by the news media, which indicates that the authorities are anxious to increase their popularity by demonstrating a resolve to press ahead with both self-purification and war on corruption. Although the post of Minister of Defense was given to Sergey Shoigu, one of the few politicians with high approval ratings, it is unlikely that he will pursue any radical reforms in his sphere of competence. The RF Government managed to dissuade Vladimir Putin from transferring state-owned energy assets into the control of Rosneftgaz, a conglomerate headed by Igor Sechin.

November 2012 turned out to be a rather hectic month because of a sharp rise in tensions in Russia's corridors of power. The loudest event of November was the dismissal of yet another minister – the second cabinet member who had lost his job since the creation of the new RF government in May 2012. It is noteworthy that this time the sack was given to Anatoly Serdiukov, who was deprived of the post of Minister of Defense, occupied by him for five years in a row. This ministerial post is one of the crucial positions within the RF Government, most important both politically and financially, especially bearing in mind the enormity of Russia's defense budget. Anatoly Serdiukov, once a newcomer from St. Petersburg, had been appointed head of the RF Federal Tax Service just in time to preside over the conclusion of the *Yukos* affair. He had gained prominence due to his marriage to the daughter of former Prime Minister (now Deputy Prime Minister), Viktor Zubkov, and had been considered a protégé of Igor Sechin. It was difficult to say anything definite about him. However, his ministerial career made him a public figure much in the public eye. In the autumn of 2008, Anatoly Serdiukov announced that Russia was launching a major military reform. That reform consisted in a switchover from a four-link command and control system (military district – army – division – regiment) to a three-link one (military district – operational command – brigade); in a reduction in the number of military districts from 6 to 4; and in the integration of the Air Force, the Navy and anti-missile defense units into the said military districts. Also, the material provision of the Armed Forces, including catering, was now to be entrusted to civilian agencies. As regards military education, Serdiukov's professed aim was to drastically reduce the number of military educational establishments by merging and enlarging them. But his most dramatic move was to begin a major reduction of Russia's officer corps (its numerical strength was cut from 335 thousand to around 220 thousand; more cuts were promised, but their implementation was postponed in 2011). The number of senior non-commissioned officers (*praporshchiks*) was also reduced. On the whole, the numerical strength of the Armed Forces was cut by approximately 150 thousand. For the first time in Russia's post-Soviet history, Serdiukov sharply reduced the number of appointments held by officers in the rank of General, and also began to reduce the number of military units and cantonments (the latter reduction, which was to take place in the nearest future, was initially planned to be very drastic – by a number of times; but whether or not it will ultimately be carried out is no longer clear in the present circumstances). Instead of demanding

an increase in allocations for military personnel money allowances, Serdiukov successfully lobbied for technical re-equipment and rearmament of the Armed Forces. In 2007, Russia adopted a seven-year rearmament program worth 5 trillion rubles. In 2010, its cost rose four-fold, to 20 trillion rubles. Serdiukov considered it to be permissible to purchase armaments abroad, and was not afraid to quarrel and litigate with Russian suppliers. In 2010, the state defense order was not fulfilled due to price disagreements, and it can be said that in those years the state defense order gave rise to a number of permanent conflicts within Russia's elite, which could be resolved only by personal interventions on the part of Vladimir Putin. Also, Serdiukov failed to finally do away with a number of well-known and long-standing army problems, including the provision of officers with housing and the issue of fires at military depots (designed to hide the theft of arms, some of which would be later used in attacks on Russian soldiers in the North Caucasus). In the RF Ministry of Defense, Anatoly Serdiukov enjoyed the support of his appointees, Chief of the General Staff Nikolai Makarov and Commander of the Airborne Forces Vladimir Shamanov, a highly popular hero of the Second Chechen War, and a large number of similar-minded civilian officials recruited by him from the ranks of the RF Tax Service. For all these reasons, and also owing to his brutal character, Serdiukov became very unpopular among military men and people with army backgrounds, who pejoratively called him the 'furniture salesman' (before becoming a civil servant, Serdiukov had actually spent some time trading in furniture). However, it is apparent that only a minister slavishly following the orders of the existing military apparatus and the military-industrial complex and hiding their obvious crisis and low combat readiness could have become popular with them. It was crystal clear that the numerical strength of both the army and its officer corps should be reduced; that a considerable proportion of military men, including those in the archaic cantonments, were busy doing practically nothing; that the quality of military education and of the military industrial complex's products was low; and that embezzlement on a grand scale was taking place in the military-industrial complex, well hidden from prying eyes behind a veil of secrecy. However, apart from reducing the army to a reasonable size, Serdiukov's other achievements did not really amount to much. Scandals concerning the quality of products issued by the defense-industrial complex continued without respite against the background of demands that Russia's budget should be increasingly sacrificed to the nebulous goddess called 'army rearmament'. Budget allocation for this expenditure item had mysteriously increased four-fold, but the planned results remained unachieved because industry simply could not cope with such an amount of orders. The army continued to be rocked by corruption scandals involving people close to Serdiukov – for example, Vladimir Shamanov was caught red-handed while attempting to use his subordinates in the interests of his son-in-law, a businessman wanted by the police (!) for alleged links to organized crime¹. Finally, the RF Investigative Committee initiated a criminal case for embezzlement in *Oboronservice*, a company headed by one of Serdiukov's favorites, former head of the Property Management Department of the RF Ministry of Defense Elena Vasil'eva. Several persons were arrested, Elena Vasil'eva was put under house arrest, while Anatoly Serdiukov was disgracefully dismissed. Serdiukov's sacking was followed by him being

¹ It is quite an amusing fact that Valery Shamanov, who had been returned from oblivion by Anatoly Serdiukov and then saved by him from being dismissed for his involvement in his son in law's affair, expressed his gratitude to the fallen patron in a manner most typical of today's Russian generals: Shamanov was one of the first to publicly approve Serdiukov's sacking.

lambasted by Russian television, and it is noteworthy that he has not been offered any consolation job as yet. His enemies had turned out to be too numerous for him to retain his post, and he had also lost the goodwill of Viktor Zubkov and Igor Sechin, with whose protégées he had been at constant loggerheads. Apparently, some of the reasons for Serdiukov's downfall were election-related: bearing in mind the rise in internal political tensions, the minister who deeply irritated society had become a liability to Russia's top leadership.

The post of Minister of Defense was given to Sergei Shoigu, who had been appointed head of Moscow Oblast only six months before his latest promotion. Shoigu is one of the few officials with consistently high approval ratings – he earned his spurs during his term as Minister for Emergency Situations. In 1999, Shoigu was one of the public leaders of *Unity*, the then party of power; later on, he was removed from active politics and mothballed for the time being. In 2012, when the ruling party was in need of charismatic politicians, Shoigu was returned to the political arena. The post of Chief of the General Staff was given to Nikolai Makarov's former deputy, Commander of the Central Military District Valery Gerasimov. His appointment can be considered a compromise between the 'old team' and the new one. Several trusted allies of Shoigu received the posts of deputy ministers (thus, the important position of Deputy Minister of Defense in charge of financial matters was received by Ruslan Tsalikov). Thus, for now, Shoigu enjoys considerable freedom of action, but time is clearly working against him, for the current situation in the army leaves no room for relaxation.

One of the leaders of *United Russia*, Andrei Vorobiev, was appointed Acting Governor of Moscow Oblast, where the next gubernatorial election is scheduled to take place next September. For Shoigu, Vorobiev is not an outsider – Andrei's father was his long-term deputy. At the same time, Andrei Vorobiev, member of a wealthy family renowned for its fishing businesses and for being business partners of Gennady Timchenko, is an independent figure: he has replaced almost one-third of Moscow Oblast's ministers. As regards the electoral campaign in the said oblast, it promises to become one of the top electoral events of next year (in case any strong candidate competitive against Vorobiev should emerge). Unlike Shoigu, Vorobiev lacks an outstanding approval rating, while his many years of work as a party bureaucrat is a virtue not highly appreciated by the electorate.

Serdiukov's dismissal did not, however, put an end to all conflicts. In November, the police arrested head of Perm Krai's Government Roman Panov, the former Deputy Minister of Regional Development under Viktor Basargin, who had followed his boss to the Perm Krai after Basargin's being appointed its Governor. As regards Viktor Basargin, he is known to be one of the protégées of Moscow Mayor Sergei Sobyanin. The RF Ministry of Internal Affairs charges Panov with embezzling a sum of nearly Rb 100m allocated for building facilities and objects for the recent APEC summit. Investigators believe that the thefts were carried out via the conclusion of unnecessary and heavily overpriced insurance contracts for the performance of construction work.

The next targets of the Russian crime busters were the businessman Konstantin Malofeev and President of *Rostelekom* Alexander Provotorov (Malofeev's former subordinate), whose homes were searched in connection with the criminal case for fraudulently obtaining a more than \$ 200m loan from VTB Bank. The loan was spent on purchasing the Nutritek food company at a price which, according to the VTB Bank, was several times higher than the company's actual value. The loan has never been repaid. At the same time, Governor of Smolensk Oblast Aleksey

Ostrovsky announced that he had revoked his plan to appoint Konstantin Malofeev Member of the Federation Council for Smolensk Oblast, despite having lobbied for him in the course of the recent municipal elections. Malofeev had won at those elections, which opened a way for him to become a senator. A few days earlier, the RF Government had suggested that Alexander Provotorov should be replaced as head of the Rostelekom state-owned company by another person, but Head of the Presidential Executive Office Sergei Ivanov refused to coordinate that personnel decision of the Government.

Finally, Elena Skrynnik, who had been dismissed in May from the position of RF Minister of Agriculture (and had not been offered another job – a very bad omen indeed), was called as a witness in the criminal case for fraud in the Rosagrolizing company, that she had headed prior to her appointment to the ministerial post. Russian state television then announced that it would show a number of incriminating documentaries concerning her alleged misdeeds (her protégée, the former head of a department of the Ministry of Agriculture Oleg Donskikh, is charged with embezzling more than Rb 500m by means of a number of fictitious supplies of equipment to agricultural enterprises via *Rosagrolizing*).

This dramatic exacerbation of tensions within Russia's ruling elite, including the use of power structures, is by no means an unprecedented phenomenon in the post-Soviet history of Russia². What is new, however, is the public-relations component of this process: the authorities are positioning themselves as a structure ready for self-purification. At the same time, the arrested suspects are not the kingpins of the ongoing corruption scandals, but their aides, deputies, etc, while the 'first persons', in fact, remain untouchable. Opposition supporters believe that, as far as public relations are concerned, the fact that yesterday's leaders, who were appointed by Vladimir Putin and stood side by side with him, are now being officially branded as 'crooks and thieves', can be both advantageous and disadvantageous for the authorities. Thus, for example, the dismissal of Luzhkov and the self-destruction of the myth concerning the superb efficiency of the Moscow government greatly contributed to the subsequent sharp rise in protest moods, which was first registered by sociologists and then spilled over into the streets of Moscow.

November 2012 saw a partial resolution of yet another intrigue – the controversy around the future of the state-owned assets in the field of electrical power production and distribution. The assets in question were *FSK* [Federal Grid Company], *Holding MRSK* [Interregional Distribution Grid Company], and *RusGidro* [Federal Hydro-generating Company]. In spring 2012, it had become clear that the new head of *Rosneft* and Vladimir Putin's closest ally Igor Sechin was planning to impose his control over the said companies on the pretext that they were in dire need of additional capitalization. His idea was that *Rosneftegaz*, the owner of a controlling block of shares in *Rosneft*, which did not transfer its dividends to the budget, should buy out the state-owned blocks of shares in those companies and create a new juridical person, owned by *Rosneftegaz*. Having got Putin's approval for *Rosneft*'s purchase of TNK-BP, Igor

² In 2007, Russia's law enforcers arrested Alexander Bulbov, one of the heads of the State Anti-Narcotics Agency (*Gosnarkokontrol*), and RF Deputy Minister of Finance Sergei Storchak (later on, Bulbov received a conditional sentence, while Storchak was released); Mayor of Moscow Yuri Luzhkov was removed from office, and his wife sold her business, while his team was mostly dispersed; and the year 2011 saw the emergence of the famous criminal case against Moscow Oblast prosecutors, which caused an extremely acute conflict between the RF Investigative Committee and the RF General Prosecutor's Office (in fact, this case is now effectively being closed).

Sechin stumbled on this issue because Putin traditionally stuck to the force-balance principle in dealing with his close associates, when none of these officials can successfully lobby on any issue he or she is eager to promote. The RF Government reached a negative conclusion regarding those projects, President Putin supported its decision, and, as a result, *RusGidro* retained its independence, while *Holding MRSK* and *FSK* merged into a single state-owned company under a new name, *Rossiiskie Seti* [Russian Grids]. The final results of that intrigue will become clear when the authorities reveal the name of the head of this new company. However, in any case, the logic requiring the existence of big companies and their financing from the budget has clearly gained the upper hand over the principle of semi-mystical ‘privatization’, so frequently spoken about in Russia’s corridors of power.

In November, the Ministry of Economic Development submitted to the RF Government a draft law on the protection of the rights of entrepreneurs. It should be reminded that the draft law was designed to implement one of Putin’s pre-election initiatives. The fate of this legislative innovation was rather strange: it began with the creation of the post of Business Ombudsman, which was given to the leader of *Business Russia*, Boris Titov, and only then the authorities started to discuss which powers should actually be vested in the Business Ombudsman. Vladimir Putin promised Mr. Titov that he would enjoy the widest powers, including the right to suspend doubtful normative acts issued by state agencies pending the decision of a court of justice. Then it turned out that his right extended only to the normative acts issued by local self-government bodies. Moreover, this right was worded as follows: ‘*the Business Ombudsman shall have the right to pass recommendations concerning the suspension*’ [of normative acts] to the very bodies that have adopted the acts he wants to be suspended. The punishment for violation of his recommendations remained unspecified. The rest of the Business Ombudsman would be confined to writing letters to one or other official, who would then decide how to respond to them. Bearing in mind the personality of Boris Titov and his extreme caution in any public discussion, we have reasons to believe that the role of Business Ombudsman will be very modest indeed.

In November 2012, Russian courts of justice passed their decisions on two loud political cases. To begin with, the first of the ‘Bolotnaya cases’ was finally brought to court (the Maxim Luzyanin case)³. As Luzyanin had pleaded guilty, his case was considered under a special procedure. In spite of this, he was sentenced to 4.5 years’ deprivation of liberty in a general-regime penal colony. This sentence was to be a clear indication that those arrested for the disturbances on Bolotnaya Square (approximately twenty persons) should not hope for their judges’ leniency, because their sentences would be intended to send a signal to society that the authorities were determined to ruthlessly retaliate for any future use of force, however minuscule, by participants of protest rallies. The second court case was that of mixed martial arts world champion Rasul Mirzaev⁴, which ended in his release. From the very beginning, his case

³ The cases of the persons charged with organizing mass disturbances and using force against public officials in the course of the opposition march on 6 May 2012.

⁴ In the course of a quarrel, Rasul Mirzaev hit a young Muscovite, who died four days later in hospital. Prosecutors called for two years’ limitation of liberty at the place of Mirzaev’s registration in the Kizliar district of Dagestan, and the court passed the corresponding sentence, although unpremeditated manslaughter (the offence incriminated to Mirzaev) can be punishable with up to three years’ deprivation of liberty. Moreover, the professional boxer Mirzaev could well have been charged with premeditated murder.

had gained much notoriety because of the suspect's personality and the unprecedented appeal for leniency made on his behalf by the State Assembly of Dagestan. It cannot be imagined that the Moscow legislature could have come forth with a similar appeal for mitigating the sentence to be passed on a Russian murderer. The authorities hesitated for a long time over how to deal with that case – at first Mirzaev was taken into custody (according to the existing judicial practice, the measure of restraint which consists in putting a person into custody means, among other things, actual deprivation of liberty for one or other term); then he was released on bail only to be taken into custody once again. Then, at last, Mirzaev was released and deported to his historical homeland. Thus, unlike the outcomes of the other two loud court cases dealing with ethnic crime – the Yuri Volkov murder case and the Yegor Sviridov murder case – the authorities preferred to heed public opinion in the North Caucasus rather than in Moscow.