

THE POLITICAL AND ECONOMIC RESULTS OF FEBRUARY 2013

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February saw yet another flare-up in the ongoing turf war between economic clans, first of all between Ivan Sechin's and Arkady Dvorkovich's groups of influence. The latest flare-up was so strong that it even spilled over into Russia's state-owned TV channels. Thus, in one of its programs aired in February, the TV channel Russia showed some openly anti-Dvorkovich footage. Nevertheless, Dvorkovich still felt himself at ease, being in fact the main moderator speaking on behalf of those in the state apparatus who are displeased with Sechin's desire to take the reins of yet another company in addition to Rosneft and Rosneftegaz. As far as this turf war was concerned, Putin was able to keep himself above the fray: he aptly maneuvered, alternatively criticizing representatives of one and then the other of these groups, and signing directives in their favor. The President's policy was apparently aimed at maintaining the delicate balance of power within his inner circle. At the same time, the law-enforcement authorities increased pressure on the businesses deemed to be friendly to Dvorkovich. Also, Russia's mass media widely reported on the anti-corruption campaign, showing a confusing mixture of anti-opposition materials and documentaries aimed against some representatives of the party of power. In the process, they did their utmost to depict Putin and the power structures as objective and unbiased arbitrators. Apart from their positive PR impact, such campaigns usually have a palpably negative impact by increasing the number of conflicts within the 'vertical of power'.

February saw a flare-up in the turf war within the apparatus of the RF Government and, correspondingly, in the struggle between the heads of state companies, big businessmen etc. aligned with one or other government official.

On the one hand, Dmitry Medvedev signed a regulation to the effect that 40% of shares in *Irkutskenergo*, held by *InterRAO*, should be sold to *Rosneftegaz* at a price not lower than the market one, and that the proceeds from this transaction should be allocated to building the *Kambarata-1* hydroelectric power station in Kyrgyzstan (*InterRAO*'s management considered this decision to be wrong). At first glance, Medvedev's decision was a clear win for Ivan Sechin's *Rosneftegaz*, but in reality things were not as simple as they seemed: however profitable *Irkutskenergo* might be, 40% of shares in this company was not a big deal after all, because the controlling block of shares in *Irkutskenergo* had long been held by Oleg Deripaska's structures. Moreover, the fact that *InterRAO*'s position on that issue was not taken into account further tipped the balance against Sechin (the Management Board of *InterRAO* is chaired by one of Sechin's allies, Boris Kovalchuk). At the same time, it cannot be affirmed that the balance was tipped in favor of the State, because the aforesaid very expensive energy project (according to official sources, it is worth more than \$ 2bn) is dubious for a number of reasons, including political ones. As a result, the management of *InterRAO* went so far as to put in doubt the necessity of implementing the directive in question, although it is likely that it will be obliged to tow the line, as it had been forced to do in the case of *RusGidro*. The list of candidates who would vie for seats on the Board of Directors of the *FSK* grid company has not been compiled as yet, and the company faces the risk of failing to hold its annual shareholder meeting for the second year in a row, because the relevant structures of the RF Government and the RF President's Executive Office are still engaged in lengthy correspondence on this matter.

This time trouble hit a group of persons known to be close to RF Deputy Prime Minister Arkady Dvorkovich. In fact, this story began in January with the sacking of Dagestan's head, Magomedsalam Magomedov, a very close ally of the oligarch Suleiman Kerimov. The new Government of Dagestan was formed by the provisional President of this republic, Ramazan

Abdulatipov, without any protégés of Kerimov¹, who used to be heavily represented in the republican Cabinet. February saw further reshuffle of top jobs: VTB Bank gave the sack to Alexander Budberg, a well known journalist and husband of Dmitry Medvedev's Press Secretary Natalya Timakova. In recent years, both Timakova and Budberg have played an important role, first as potential agents of Medvedev if he were to remain in office as the President of Russia, and then simply as integrators of the interests of those in the Russian elite who had gained promotion in the years of Medvedev's nominal presidency. Vladimir Putin ordered that the head of the state-owned joint-stock company *North Caucasus Resorts*, Ahmed Bilalov, should be dismissed, after criticizing him for delays in delivering a number of sports facilities for the 2014 Winter Olympic Games in Sochi and for a sharp rise in their price (although construction had been carried out not by *North Caucasus Resorts* but by a firm owned by the Bilalov family, it is still possible that, in fact, Ahmed Bilalov as a physical person can be held responsible for the afore-mentioned failures – and he paid for them dearly by being dismissed from a very important and lucrative government job). The *Summa* Group belonging to Bilalov's cousins Ziyavudin and Magomed Magomedov lost a lucrative contract for building the state-owned part of the Kyzyl – Kurakino railroad. The discontinuation of the contract was caused by the collapse of the entire legal base of the public-private partnership behind this project, resulting from the bankruptcy of *Yenisei Industrial Company* – the private contractor that had been responsible for building the second part of the railroad. By all indications, the new contract will be awarded without competition to a new investor, Ruslan Baisarov. However, as *Summa* has managed to get an advance payment, it can complain not of losses per se but of failing to achieve the expected amount of profit. To make matters worse, the management of *Transneft* demanded that *Summa's* appointee, Rado Antolovich, General Director of the *Novorosiysk Commercial Sea Port* company co-owned by *Transneft* and *Summa*, be dismissed from his post for trading mistakes. If this conflict is not resolved amicably, *Summa* will be a big loser: as 25% of shares belong to various state-owned entities, *Transneft* can merge their respective holdings into one parcel and then, quite easily and absolutely legally, replace the management of the commercial sea port company. Last but not least, Vladimir Putin poured criticism on *RusGidro's* head, Evgeny Dod, who had unexpectedly sided, in late 2012, with Arkady Dvorkovich in the conflict taking place in power engineering. Although Dod's future is still far from clear – he deftly parried Putin's accusations of condoning various irregularities in the company by pointing out that those irregularities had taken place before his appointment to the post of Chairman, and stating that the claims made by Putin that he somehow condoned those irregularities were based on speculations, not on facts – this public reprimand will definitely have an adverse effect on his future career prospects.

It is clear that this series of events – all taking place over the course of only one month – could not be casual, even if each of them, taken separately, could have been accidental. A number of commentators go further than that to affirm the existence of a conflict between Prime Minister Dmitry Medvedev, whose top economic adviser Dvorkovich had been for a number of years, and the powerful head of *Rosneft*, Ivan Sechin, known as a long-standing favorite of Putin, or even of a struggle between 'Medvedev's clan' and 'Putin's clan'. From our point of view, this is a gross exaggeration, because Medvedev has long ceased to be viewed by the elite as an independent decision-maker. On the other hand, Dvorkovich and his allies are influential persons in their own right. Thus, last year, Dvorkovich and the heads of some government departments and agencies (first of all, the RF Ministry of Energy and the Ministry of Natural Resources and Environment, frequently backed up by other departments) began a systemic conflict with Sechin, opposing practically each of his initiatives. In some cases they were forced to back down, as it happened in the event of TNK-BP merger, after Putin had clearly indicated his position. Sometimes they engaged in long, desperate and so far not victorious turf battles (as in the event of abolishing *Gazprom's* and *Rosneft's* monopoly of oil and natural gas exploration and exploitation on Russia's continental shelf). But in a number of cases they managed to totally frustrate Ivan Sechin's initiatives designed to consolidate the state-owned blocks of

¹ Dagestan is not simply a region rich in various resources, but also a major recipient of Russian federal budget funds. That is why control over Dagestan's government is of vital importance for any group vying for power.

shares in energy companies in the hands of *Rosneftegaz*, an umbrella conglomerate through which the State holds the state-owned block of shares in *Rosneft*. Sechin tries to transform *Rosneftegaz* into a replica of the Federal Agency for State Property Management by vesting it, on various pretexts, with the right to manage the state-owned blocks of shares in large joint-stock companies. So far, he has failed to either consolidate the *FSK* grid company and *Holding MRSK* (a holding company comprising interregional distribution grid companies) on the basis of *Rosneftegaz*, or to ‘additionally capitalize’ *RusGidro* at the expense of *Rosneftegaz*, which should have been rewarded for its magnanimity by the gratis allotment of shares in *RusGidro* and the establishment of de-facto control over the latter. The policies of Sechin, who demands everything, everywhere, despite *Rosneft*’s failure to accomplish anything worth mentioning, raise serious doubts even from a corporate point of view – for example, having managed, so far, to frustrate, with *Gazprom*’s help, the recent attempts of private companies to gain access to continental shelf development, Sechin, almost immediately – in February – put forth a proposal that *Gazprom*’s monopoly on natural gas exports should be cancelled. Apparently, Sechin wants *Rosneft* to have equal rights with *Gazprom*, although it is clear that the latter will be less than forthcoming about this initiative.

In fact, Dvorkovich has found himself on the front line of resistance to Ivan Sechin’s redistributive initiatives, which are disliked by many officials and many heads of state-owned companies (because any changes in these companies’ legal status and jurisdiction create a formal reason for their replacement – even in absence of any complaints filed against them). This negative stance on Sechin’s initiatives is shared by many influential oil industry bosses who are visibly displeased with the unprecedented privileges of *Rosneft*. Correspondingly, pressure on the business structures close to Dvorkovich may be something more than simply revenge – there is also probably a desire to force him to alter his position on a number of issues.

February saw the emergence of a grave threat to the existence of a large aviation asset – the *Red Wings Airlines* company. It should be reminded that in Russia, because of the prevalence of monopolies in the RF domestic air transport market, such assets are much more expensive than in Europe. Moreover, competition in this market is on a steady decline – for example, in recent years the State liquidated both the loss-making *Atlant-Soyuz* and the perfectly viable state unitary enterprise *GUP Kavminvodyavia*, and refused, in the crisis year 2009, to bail out the *KD avia* company. Recently, yet another large Russian air operator, *Kubanavia*, declared bankruptcy. One must admit that the decisions behind these company closures had at least some degree of justification. This, however, cannot be said about the suspension, by the Federal Air Transport Agency, of *Red Wings*’ air operator certificate, which apparently reflected the authorities’ intention to create a problem for the owner of this air company – the eccentric billionaire Alexander Lebedev, the erstwhile sponsor of the *Novaya Gazeta* newspaper [The New Gazette] and a regular critic of the policies of the RF Central Bank and state-owned banks. Formally, the decision to suspend the certificate resulted from the disastrous crash landing of a TU-204 jet near Vnukovo at the end of last year (at the same time, TU-204 airplanes *per se* were spared official reprimand – in spite of having been criticized for a number of structural design flaws). Although, theoretically, *Red Wings* have some chances to get its air operator certificate restored (for example, if Lebedev should sell the company), in any case this scandalous development indicates that the State is not really interested in attracting investors even into the aircraft industry and the air transport sector (which are loudly declared to be ‘break-through’ and ‘high technology’).

Over the course of February, the official mass media continued to report on the anti-corruption campaign. This time, the most prominent victims of this campaign were two opposition members of the State Duma, who were stripped of parliamentary immunity. One of this duo was Oleg Mikheev, a big businessman and one of the leaders of the *Fair Russia* (he had been charged with violating the property interests of other juridical persons). The second outcast was CPRF MP Konstantin Shirshov, who had been charged with mediation in bribe-taking. At the same time, Chairman of the State Duma Commission on Ethics Vladimir Pekhtin, a well known activist of *United Russia*, voluntarily resigned from parliament after it was established that he owned property in Miami and had not declared it to the State Duma. Unfortunately for Pekhtin, it turned out that Miami

real estate data are publicly available. In his case, these data were plainly scandalous, especially bearing in mind his own calls to combat American agents of influence and – by way of being patriotic – not to own foreign assets. Two more *United Russia* deputies followed suit and resigned from parliament. One of them was the billionaire businessman Anatoly Lomakin¹.

Also, criminal proceedings were initiated against Head of the RF Federal Fisheries Agency Andrei Krainiy for an offense under Article 292 of the RF Criminal Code (forgery by an official). According to the case materials, he ordered his subordinates to prepare a backdated order for dismissal of Sergei Muraviov, head of the Agency's North West District Territorial Administration, after the latter was arrested for bribe-taking. By so doing, Krainiy not only whitewashed his own reputation, but also made things easier for Muraviov – if the forgery had not been exposed, he could have been brought to criminal responsibility for felony swindling, a charge that carries a more lenient penalty, because in this case he would not have had the authority to fulfill his promises. Andrei Krainiy, who had headed the agency responsible for issuing commercial fishing and marine product licenses since 2007, had been considered a very powerful official. His fatal *faux pas* was to get into conflict with RF Minister of Agriculture Nikolai Fedorov. So far, Krainiy has denied any wrongdoing on his part. It should be noted that neither he nor Dod has been dismissed as yet.

A number of regional officials were dismissed, and some former and present officials were arrested – mainly in St Petersburg and in Murmansk Oblast. Information on their crimes of embezzlement was published against the background of Vladimir Putin's demand that the practice of sharp increases (up to 200%) in tariffs for housing and utilities services should be discontinued.

A number of administrators caught for plagiarism were stripped of their academic degrees, while the Chairman of the Russian Higher Attestation Commission (Russian degree-awarding regulator), Felix Shamkhalov, who had become a Full Member of the Russian Academy of Sciences at the age of forty, was dismissed and arrested. It turned out that his tempestuous academic career had proceeded hand in glove with his activities as manager of a number of commercial enterprises heavily indebted to the RF Bank for Development and Foreign Economic Affairs. It can be said that the current attempts to improve the image of the authorities and *United Russia*, and to hunt corruptioners within the ranks of the officialdom can yield both advantages and disadvantages. Thus, the vertical of power becomes increasingly uncontrollable, the number of people willing to work within it dwindles, while the opposition will undoubtedly claim that the ongoing events irreversibly prove the validity of their denunciation of United Russia as the 'party of crooks and thieves'.

In February, the lengthy parliamentary discussion of the draft law designed to impose a partial ban on the ownership of foreign assets by Russian lawmakers (it had been adopted in first reading in December 2012) came to an abrupt end. The State Duma dominated by *United Russia* was forced to hastily adopt, also in first reading, a new draft law on the same subject, personally introduced into parliament by President Vladimir Putin. It has already been announced that the new legislation will be a base law, and that the initial draft law will be adjusted to fit it. The 'base law' turned out to be even more toothless than it had been expected after Vladimir Putin's declaration, in December 2012, that officials (as well as MPs, judges, etc) should be permitted to own real estate abroad. The new version of the ban on foreign property ownership for officials envisages that civil servants, their spouses and minor children should be forbidden to keep 'deposit accounts and cash' at foreign banks outside Russia and to own foreign securities. Thus, even adult children (not to mention brothers, sisters, parents, etc) are exempt from the ban because 'they can be on bad terms with their parents, and the latter can be unable to influence them'. Also, the law does not mention other complex banking products that are neither 'cash' nor 'accounts'. Thus, any real ban on foreign property ownership for official is no longer on the agenda of the RF State Duma. ●

1 Approximately twenty members of the two chambers of Russia's parliament are included in the Forbes World's Billionaires List. The new Russian laws make their legal status rather complicated: they are denied the right to personally engage in entrepreneurial activities, but have the right to be beneficiaries of companies transferred into somebody else's management. So far as the notion of 'entrepreneurial activities' is concerned, it is also rather complicated: for example, it is not clear whether or not a lawmaker has the right to conduct commercial negotiations regarding his or her assets without signing the documents – as it was done by Oleg Mikheev (as a result, he was charged with other offenses).