

Russian Government and the Politics-Business Nexus: 1998-2003

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The President, the Presidential Administration, and Big Business

The period 1998-2003 includes the last two years of the presidency of Boris Yeltsin and the first three of that of Vladimir Putin. During this period only relatively minor changes took place in the overall nature of government and of the politics-business nexus.

The Russian Constitution is presidential in type, and gives extensive powers to the president. Thus the executive branch dominates the legislative and judicial branches, and both presidents have exercised wide-ranging powers over all three branches. In doing so, they have usually used as their main instrument the Presidential Administration (referred to by the Iraqis as the Presidential Council). This is a complex organization that aims – through complicated methods of political and financial persuasion - to ensure that, for example:

- the Cabinet of Ministers prepares the draft legislation desired by the president;
- the parliament then adopts this legislation without introducing changes undesirable to the president;
- the court system renders judgments - in cases where the president has an interest in the outcome - that accord with his wishes.

In addition, the Presidential Administration (PA) plays a key role in controlling and censoring the media, especially the national television channels, in trying to ensure that the president's will and policies are implemented in Russia's 89 federal regions, and in controlling as far as possible Russia's nascent civil society. It also interferes extensively in the business world, indirectly mediating major disputes, indirectly granting favors to some companies, and penalizing others. At the same time, it and the Cabinet of Ministers interact with business regularly on the political level. In this way, business has exerted a major influence on government policy -- more blatantly in the Yeltsin era, less blatantly, but still substantially under Putin.

Given this multiplicity of important roles, it is not surprising that the head of the PA and the president are usually regarded as the two most powerful figures in Russia's government. This was especially the case during the four and a half years from March

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1999, when Yeltsin appointed Alexander Voloshin to head the PA, and October 2003, when Voloshin resigned from that position. Voloshin was quickly reappointed by Putin after Yeltsin resigned in December 1999, and provided important continuity from one presidency to the next.

Corruption in Government-Business Relations

Scholars and analysts of Russian government are in broad agreement that since the late 1980s almost all government institutions have either been corrupted by private business interests, or have corrupted themselves. As Putin himself lamented in his latest annual address to parliament, government agencies do not, in practice, further the national interest, because their officials are too busy pursuing their private interests. They do this by taking bribes from businessmen, so that the latter can obtain necessary licenses, permissions, exemptions, etc, and can also influence legislation. The officials then invest the bribes in private business enterprises.

This corrupt activity has been on such a large scale that – when business or political rivalries erupt within the elite – opposing sides generate media reports about each other’s corruption that are lengthy and detailed. These reports concern politicians, officials, and business people at all levels, including the highest. Among the objects of such allegations have been, for example, the former prime ministers Viktor Chernomyrdin, Sergei Kirienko, and Mikhail Kasyanov, the former ministers and presidential aides Andrei Vavilov, Anatoly Chubais, Pavel Borodin, and Alexander Voloshin, the tycoons Oleg Deripaska of Basic Element, Mikhail Fridman of Alfa Group, Vagit Alekperov of Lukoil, Roman Abramovich of Sibneft, Boris Berezovsky (media holdings), Vladimir Potanin of Norilsk Nickel, and Mikhail Khodorkovsky of Yukos, and the president himself, Vladimir Putin.

Only rarely are these reports denied or subject to libel suits, evidently because many of the allegations are true. And only rarely is anyone indicted and sentenced in connection with them, because the prevailing political culture is one in which members of the elite normally enjoy de facto immunity from punishment. Occasionally, however, such figures are arrested while abroad, for allegedly breaking foreign laws. This happened recently to a former minister of atomic energy, Yevgeny Adamov, who is currently being held in Switzerland on charges that he misappropriated \$9 million in U.S. aid money. Also, some members of the elite have been barred from entering the U.S. because of their alleged links to organized crime groups.

Not surprisingly, the corrupt relations between government and business mean that each side uses the other in a variety of ways. One of these is the government’s use of Russian companies, especially energy companies, as a usually effective instrument of its foreign policy.

Alexander Stal'evich Voloshin (born 1956): recipient of Iraqi oil allocations

Before his appointment to the PA in 1997, Voloshin was a businessman closely associated with Boris Berezovsky. Promoted to head the PA in March 1999, Voloshin quickly became a major player in Russian government, gaining the confidence of the group around Yeltsin and the magnate Roman Abramovich. It was this group that selected Putin to become prime minister in August 1999, and later ensured that he became president. Thus in early 2000 Putin chose Voloshin to manage his effective electoral campaign.

In addition to entrusting Voloshin to run the complex, often fractious structures of the PA, and help him keep the main clans of the elite happy and in line, Putin also entrusted him with many special responsibilities and assignments. Among these were managing the multi-faceted reform of federal-regional relations that Putin launched in 2000.

Since Voloshin soon became famous in his PA position for his discretion, and almost never gave interviews, it is hard to judge the exact significance of the fact that the Iraqis gave an especially large number of oil allocations to him, rather than to some other Russian official. As far as is known, for example, he never had close relations with Iraq or Saddam Hussein. Thus it would be reasonable, but unprovable, to speculate that Saddam might have picked out Voloshin, not because he was seen as being specially well inclined towards Iraq, but rather because it would be invidious to choose Putin, but Voloshin could be trusted to distribute the profits from selling the oil in ways that would meet with Putin's approval. More broadly, the Iraqi purpose in granting these allocations to Russians was clearly the same as it was regarding its other allocations, namely to encourage the beneficiaries to take pro-Iraq positions in international forums, as well as in bi-lateral relations. In the Russian case, this made sense, since the Kremlin had a long history of close relations with Iraq and Saddam, and its seat on the U.N. Security Council meant that it could, as in due course it did, oppose anti-Saddam moves made in that body.

Sergei Vladimirovich Isakov (born 1961): recipient of Iraqi oil allocations

Isakov is a businessman and would-be politician. As a candidate for Vladimir Zhirinovskiy's inaccurately named Liberal-Democratic Party, he has run for political office four times, but never been elected. In 2000 he was arrested on charges of financial deception, but not sentenced. In business he has worked in the airline, oil, and engineering industries, including for the companies Vnukovo Airlines, Nafta Moscow, and the Russian Engineering Company.

Since no personal ties to Voloshin are known, while such ties with Zhirinovskiy appear probable, one might perhaps speculate that Voloshin followed Zhirinovskiy's recommendation in using Isakov to process his own oil allocations. Zhirinovskiy already knew how to do the processing, and could, therefore, easily instruct his associate Isakov, who was on the board of the oil firm Nafta Moscow. But this is only speculation.

Vladimir Vol'fovich Zhirinovskiy (b. 1946): recipient of Iraqi oil allocations

From 1983, Zhirinovskiy worked as a lawyer in a publishing company, before, in 1990, becoming a politician and businessman. In doing this, he was secretly backed by the Communist Party, which wanted to use him and his Liberal-Democratic Party to take votes away from genuinely oppositional parties. Later the Yeltsin administration continued this relationship, reportedly using money to control him, as had the communists.

The LDP advocated most notably a militantly nationalistic and anti-Western foreign policy, and also, after 1991, the restoration of the Soviet Union. This made Zhirinovskiy's strong and demonstrative support of Iraq and Saddam Hussein in the 1990s unsurprising. Not only had the USSR and Russia had a close relationship with Saddam in the past, but Zhirinovskiy, who almost openly aspired to be the dictator of Russia, also admired the Stalinist way in which Saddam ran the Baath Party and exercised his dictatorship in Iraq.

All this – plus Saddam's predictable decision to favor him with oil allocations - explains Zhirinovskiy's numerous trips to Iraq in the 1990s, often at the head of large delegations, and his many meetings with Saddam and his senior advisors.

While Zhirinovskiy probably supplied the Kremlin with useful intelligence on Saddam's attitudes and policies, it is doubtful how much real influence he had on Kremlin policy. His trips to Iraq were not popular with the Russian people as a whole, and the Kremlin had much more balanced and experienced experts than him on Iraq policy, notably the senior politician and, in 1998-99, prime minister, Yevgeny Primakov. Also, Zhirinovskiy never won more than 8% of the vote in his three runs for the presidency, although his extreme and colorful demagoguery helped his party to gain 23% of the popular vote in the 1993 parliamentary elections. However, it won only 11% in the 2003 elections. So the Iraqis may not, in Zhirinovskiy's case, have made a particularly good investment.

Russian oil companies that profited from Saddam's oil allocations to Russians

While some of these companies are rather obscure, others are prominent. The state-owned Lukoil, for example, whose services were used by Zhirinovskiy, is the largest Russian oil company, and has a reputation for ruthless business tactics. It has long been headed by one of the richest of Russia's "oligarchs", Vagit Alekperov, whose personal net worth was recently estimated by Forbes Magazine at \$4.1 billion.

Another oil major used by Zhirinovskiy was the Tyumen Oil Company, known as TNK. This was jointly bought in 1996 by the Alfa Group, which also has a reputation for ruthlessness, and an American company, Access Industries. Alfa is run by the oligarchs Mikhail Fridman and Petr Aven, whose net worth Forbes estimates at \$5.8 and \$1.7 billion respectively. Access Industries is run by a close associate of Fridman's, Leonard Blavatnik, a U.S. citizen who immigrated from the USSR.

Alekperov, Fridman, and Aven have long had intimate ties to the highest levels of Russian government, and Aven is a former government minister. As such, they exemplify the incestuous relationship between government and big business in Russia.

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