

## The end of an oligarchy

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Russian oligarchs moulded the immediate post-Soviet economy by moving quickly to acquire assets and political friendships, but governmental and economic developments in more recent years are inhibiting their continued reign



Following the ostensible suicide of [Boris Berezovsky](#) and the suspicion surrounding his death, many perceive the famed Russian's demise denotes the waning influence of the oligarchy in present-day Russia.

Popularly termed 'catastroika', the downfall of the Soviet economy and the subsequent privatisation of state-owned assets were instrumental in the polarising of wealth and the

perpetuating of a contaminative Russian oligarchy. Originally intended as a means of eliminating the vestiges of the Soviet economy and to spur a new class of property owners, the move initiated a super-class of business magnates.

Under the presidency of Boris Yeltsin, the illegalities of private ownership, apart from those termed 'strategic', were almost entirely removed. The sectors that experienced the biggest changes were industry, energy and financials; most of which were subsequently monopolised by the emerging oligarchy through the early- and mid-1990s.

### **Money and power**

Russia's burgeoning post-Soviet market-based economy allowed those of an entrepreneurial mindset, or else with political or manufacturing connections, to thrive, uninhibited by state control. With many being granted ministerial appointments and, as such, wielding a degree of political sway, the wealthier oligarchs were often granted vast shares in Russian industrial heritage in return for political support. The most notable example of this was the re-election of Boris Yeltsin in 1996, which was abetted by and in the interest of Russian oligarchs, in that Yeltsin's backing of privatisation was to prevent what would otherwise have been a reversion to communism under an alternative electorate.

A number of oligarchs have since incited a marked and manifest degree of resentment among the Russian populace; the *Guardian* describing them as "about as popular with your average Russian as a man idly burning bundles of £50s outside an orphanage." Many Russians believed these oligarchs to be unthinkingly bleeding the state of its value and furthermore to be accumulating insurmountable wealth at the direct expense of the remaining population. David Satter, author of *Darkness at Dawn*, maintains that "what drove the process was not the determination to create a system based on universal values but rather the will to introduce a system of private ownership, which, in the absence of » law, opened the way for the criminal pursuit of money and power."

The – relatively – impoverished former billionaire [Boris Berezovsky](#), upon his death, was popularly depicted by the media as a down-and-out victim, whose reserves had been depleted by devastating legal fees, misplaced share-selling and an untimely divorce settlement. After his fruitful divulgements in oil, planes, cars, aluminium, and television networks, the magnate's wealth is reported to have reached as much as \$3bn according to *Forbes* at its height in 1997; a figure that, in many respects, could not be further from the present health of the Yeltsin/Putin-era oligarchy.

After the privatisation of Russia's Soviet-run economy, the flamboyant Berezovsky recognised the prospects to be had in his purchasing of state-owned property; a practice that has since been termed 'robber capitalism'. Berezovsky can perhaps be considered the archetypal oligarch in many senses: his keen mathematical and profiteering prowess was put to use in his investment in and founding of multiple business enterprises, such as flagship automaker [LogoVAZ](#).

*“Russian oligarchs’ business strategies... tend to be tired and unchanging – largely a consequence of governmental compromise and/or suppression”*

Berezovsky is thought to be largely responsible for Vladimir Putin’s inheritance of Yeltsin’s rule in 2000, though the newly elected incumbent displayed a far less favourable attitude than Yeltsin towards the Russian oligarchy and their having monopolised many of Russia’s industries. Putin set about charging the most notable of Russian oligarchy for numerous legal offences, as such usurping their enduring hold on the Russian economy.

In a public letter, Berezovsky stated that Putin was “directed toward changing the state’s structure” and that he represented a “threat to Russia’s territorial integrity and democracy.” On July 17, 2000, Berezovsky left the country, stating that he “did not want to be involved in the country’s ruin and the restoration of an authoritarian regime”, although he may well have been afraid of losing his grip on what had previously been an assured return on investment.

### **Forced to move on**

Berezovsky’s influence and finances were to be reduced by legal complications brought about by state opposition. Putin’s regime is one that recognises the potential political and financial sway of Russian oligarchs, and is furthermore one that has greatly offset the role of these individuals in manipulating the political and economic misdirection of Russia. As such, Putin has set about destabilising the governance of Russian oligarchs, specifically warning Berezovsky that “the state has a cudgel in its hands that you use to hit just once, but on the head. We haven’t used this cudgel yet. We’ve just brandished it... [But] the day we get really angry, we won’t hesitate to use it.”

Berezovsky’s financial decline is highly representative of the disparity between then-and-now post-Soviet Russia. Arguably, it is in the last decade that the power of Russian oligarchs has been – if not dissolved – entirely reconstituted; their immeasurable financial weight now has less of a bearing on the progression of economy and politics. Whereas those such as Berezovsky once had the blanket of governmental support to fall back on, Russian oligarchs are now forced to branch out into economies outside Russia, and to be held culpable for their actions.

### **Gas giant burning out?**

The tenure of [Alexei Miller](#) as CEO of [Gazprom](#) has been one characterised by a disparity of fortunes and an unerring opacity in its corporate governance. Being Russia’s largest company, the state-owned enterprise retains an unflinching temperament in its many contentious dealings, and is considered the most enigmatic company in the BRIC nations by RepRisk.

As of April this year, Gazprom has been valued at under \$100bn for the first time since July, 2009. The company’s market value has fallen by approximately a third in the past year, predominantly in relation to declining profits, rising expenditure and the prospect of lower-

than-forecast dividends. To further impact on the company's recent calamity, net income for 2012 fell 37 percent year-on-year as compared to 2011.

These are sobering realities for Miller, as Alexei Kokin, Senior Oil and Gas Analyst at [UralSib Financial Corp](#) claims that: "There is hope that the company's management will be replaced, this is the only thing that would be able to turn stock around." Regardless of Miller's continued employment prospects, the energy giant will likely continue along its current path, as the role of CEO is secondary to the state-owned, state-controlled reality of Gazprom's woes.

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Miller, having risen to prominence after serving on the Committee for External Relations for the St Petersburg Mayor's Office under Putin, has since emerged as one of the foremost Russian oligarchs of the modern post-Soviet era. However, Miller's success is measured more so in accordance with the merits of his position as opposed to his having displayed substantial business acumen. Though Miller remains an unmoving constant in the ever-declining fortunes of Gazprom, his inefficiencies go unpunished, for the company's vast monopoly remains largely untested; at present it supplies 25 percent of Europe's gas consumption.

Miller's current stature is representative of Yeltsin/Putin-era oligarchy in that success is largely achieved in accordance with state support – further illustrated by the changing fortunes of Berezovsky. Whereas once the wealth and influence of Russian oligarchs was so extensive that they could act pretty much independently of governmental approval, state support now seems to be of growing importance to the continued fruition of the Russian oligarchy.

[Mikhail Khodorkovsky](#) is perhaps best representative of the receding influence of Putin-era Russian oligarchy. Having initiated a string of businesses in the Glasnost/Perestroika era, Khodorkovsky's wealth, in 2004, was valued in excess of \$15bn. The former head of oil giant [Yukos](#) was subsequently arrested in 2003, on charges of tax evasion, fraud and embezzlement, and was sentenced to eight years imprisonment in 200. This was later extended to 14 years, resultant of a second trial in 2009.

Khodorkovsky's heading of Yukos was one characterised by political indifference; a rare quality in a period in which political allegiances could significantly better a company's means towards financial growth. While still acting CEO at Yukos, Khodorkovsky persisted that: "Large companies cannot finance political parties as their shareholders and employees

have differing political views,” a policy with which he was to persevere to his detriment under the rule of Putin.

It was in 1995, preceding the election of Putin, that Khodorkovsky acquired Yukos at a state auction for the highly subsidised price of \$309m. Yukos was formally at the brink of folding due to mismanagement, underinvestment, and an ailing infrastructure, and was producing a fraction of its capacity at inflated costs. Under the Yeltsin administration’s ‘loans for shares’ programme, Khodorkovsky transformed Yukos into Russia’s second-most prominent oil producer, providing one in every five barrels of oil produced in Russia.

Perhaps most notable of Khodorkovsky’s achievements at Yukos was his essential modernisation of the company’s corporate governance. In his publishing of its accounts to international standards, the company was considered one of Russia’s most transparent companies; as such instigating an understandably huge amount of shareholder interest cross border. Khodorkovsky’s arrest is indicative of the standards for success in present-day Russia. Without making explicit an allegiance to the state, those who previously thrived away from state alignment are now tending towards financial loss.

### **Starting from scratch**

[Roustam Tariko](#)’s circumstances differ from the majority of Russian oligarchs in that his businesses – as opposed to being private, previously state-owned enterprises – were started from scratch. Instead of establishing an unerring monopoly, Tariko’s strategy resembles a far more conventional and level-headed approach, instead seeking to steadily expand and maintain healthy profits.

Perhaps most significantly, Tariko founded [Russian Standard Vodka](#) through his Russian Standard Company, recognising that the world’s largest vodka market didn’t possess a domestically produced premium vodka. In 1999, Tariko expanded into the banking sector when he founded [Russian Standard Bank](#), which is presently the market leader in consumer finance and the largest consumer lending bank in Russia.

As opposed to many Russian oligarchs’ business strategies, which tend to be tired and unchanging – largely a consequence of governmental compromise and/or suppression – Tariko’s philosophy appears to be both dynamic and progressive; free of state interruption in that his businesses do not conflict with governmental interest.

In 2011, Tariko bought a 9.9 percent stake in Polish Central European Distribution Company (CEDC), one of the world’s largest vodka producers, and a 70 percent stake in Gancia, an Italian producer of sparkling wines and vermouths. Tariko’s methods of expansion are both reasoned and informed, conflicting with the desperate investments of Miller’s Gazprom or Beresovsky’s short selling of Sibneft shares.

The most recent of Tariko's advances are those relating to his taking operational control of CEDC in December of last year. Having increased his share to 28 percent in 2012, Tariko was granted operational control after submitting \$65m in funding to repair the ailing distributor and to reshuffle the board. CEDC has experienced a series of debt crises, rising from \$300m in 2006 to \$1.2bn in 2009. Furthermore, most of the company's revenues are in zlotys, roubles and Hungarian forints, all of which have lost ground against the dollar. Tariko's relatively conservative approach can perhaps offset a large proportion of the company's debt, offering a markedly different alternative to that of the American founder, William Carey, whose aggressive stance saw him spending \$1.1bn in 2008 to acquire a host of Russian distillers and distributors to conquer the market.

Russian oligarchs are no longer the 'king makers' of old, but are now forced to align with state interests and with larger macroeconomic conditions if they are to be allowed a fairer opportunity of financial growth. Though these oligarchs have demonstrated a degree of business acumen in their initial sweeping up of private assets, today circumstances demand less opportunistic spending and more sustained, equable and state-aligned business operations.