

# Russian President Backs Crackdown on Oil Magnate

by Rachel Douglas

Neither his monetary fortune, nor his status as darling of the *Wall Street Journal* and the London- and U.S.-based oil multinationals, could protect Yukos Oil CEO Mikhail Khodorkovsky from arrest by Russian authorities on Oct. 25. Two days later, President Vladimir Putin spoke out on the Yukos affair more decisively than ever before, making clear that the courts and law enforcement agencies have his backing to go after the company. Then, when it was reported, on Oct. 29, that Kremlin chief of staff Alexander Voloshin had tendered his resignation, and that the Russian Ministry of Natural Resources was conducting an inventory and review of all oilfield licenses granted to Yukos, no doubt could remain about the far-reaching strategic implications of the events around Yukos.

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Putin's move to back up—now openly—the prosecutors against Yukos, signals his appreciation of the world situation.

In the face of current U.S. government intentions to launch more wars, Russia's national security concerns increasingly take priority over making accommodations for the sake of promised foreign investment. Putin's go-ahead for the Yukos crackdown—like his approval of a harshly worded posture paper from the Ministry of Defense on Oct. 2 (see "Russia: NATO May Force Nuclear Strategy Shift," *EIR*, Oct. 17)—is part of the Russian response to lunacy in Washington.

Yukos Oil had been the second largest oil company in Russia. After its merger this year with Khodorkovsky's fellow oligarch Roman Abramovich's Sibneft, it became the largest in Russia and fourth-largest in the world. Khodorkovsky has frequented London, New York, Washington, and Houston during the past two years, promoting Russia's potential to supply Western oil needs, especially if wars kept the Middle East in turmoil. In June 2001, when Yukos became the first big Russian firm to publicize its ownership structure of nested offshore holding companies, based in Gibraltar and the Isle of Man, the *Times* of London puffed Khodorkovsky as having "gone from being a shadowy figure associated with the alleged plunder of Russia, to the country's richest and most famous business leader," whose decision in favor of financial transparency "could set a trend

that would make Russia far more attractive to investors."

All the while, investigators in the Russian Prosecutor General's Office had Yukos in their sights. This past Summer, Khodorkovsky's fellow Yukos executive and stockholder Platon Lebedev was arrested, and has been held ever since. At issue are, at minimum, tax evasion and illegalities in the 1994 acquisition of a company called Apatit. Many analysts initially chalked the affair up as a political skirmish in advance of December's State Duma elections, insofar as Khodorkovsky had spread contributions among many political parties.

But the attention paid by investigators to the events of nearly a decade ago, during the fire-sale privatizations when so-called "oligarchs" like Khodorkovsky made their fortunes, hinted at a shift, away from allowing the unbridled stripping of Russian raw materials resources to continue. (See "Why Russian Oligarchs Are Now Under Attack," *EIR*, Aug. 22).

Khodorkovsky received a summons to appear on Oct. 24 for questioning by investigators in Moscow. In reply, Yukos sent a letter saying that the CEO would be on a business trip in Siberia at that time. On Oct. 25, Federal Security Service (FSB) agents plucked Khodorkovsky out of his first-class seat on an airplane at Novosibirsk, whence he was about to take off for Irkutsk in East Siberia. Yukos press spokesman Alexander Shadrin complained that "they used special forces as if they were dealing with a terrorist," bursting onto the plane in *spetsnaz* garb.

Khodorkovsky was then taken to Moscow and charged with "a series of crimes, including theft by fraud on a large scale, and the failure to pay taxes as an organization and as an individual," Interfax reported. Natalia Vishnyakova of the Prosecutor General's office said, "At the moment, Mikhail Khodorkovsky has been charged under seven articles of the Criminal Code of the Russian Federation. The indictment is 50 pages long. It may be expanded in the near future, particularly with respect to tax evasion." She added, "The investigation is unprecedented in scope, both for the amount of embezzled funds and unpaid taxes, and for the scale of the investigatory work." After a six-hour hearing, a Moscow judge ordered Khodorkovsky held without bail.

Just ten days earlier, Khodorkovsky had been on his latest visit to Washington. He had spoken at the Carnegie Endowment on Oct. 15 before an audience of U.S. think-tankers and political figures, and continued to probe a possible partial buy-out of Yukos by ExxonMobil.

As Khodorkovsky remained in the Matrosskaya Tishina prison for a third day, Putin on Oct. 27 spoke out forcefully on the Yukos affair, warning that there will be no special deals to block the work of law enforcement and the courts. Putin's remarks were made at a cabinet meeting on another law enforcement matter—new laws he has introduced against human trafficking—and were nationally televised.

On the arrest and indictment of Khodorkovsky, Putin



*The Oct. 29 resignation of Kremlin chief of staff Alexander Voloshin (left) signalled the strategic seriousness of the imprisonment since Oct. 25 of Russia's richest tycoon, Mikhail Khodorkovsky (right). Khodorkovsky is shown speaking at George Soros' Open Russia Foundation.*

said that various politicians, as well as leaders of the Russian Union of Industrialists and Entrepreneurs, had asked to meet with him. Though meetings with business and other constituency leaders are “useful and necessary,” Putin said, “there will be no meetings and no bargaining over the law enforcement agencies and their activities, so long, of course, as these agencies are acting within the limits of Russian legislation. . . . Neither the executive authorities nor even the Prosecutor’s Office can deprive someone of their freedom, even for the period of pre-trial detention. Only the court has this power. If, in this particular case, the court has made this decision, then I assume that it had reasons for doing so.”

Putin continued, “Everyone should be equal before the law, whether ordinary citizen or middling entrepreneur or big businessman, and no matter how many billions of dollars they may have in their personal or corporate accounts. Without this equality, we will never manage to build an economically effective and socially regulated tax system. We would never be able to teach people to pay their taxes . . . ensure contributions to the social and pension funds. And we would never be able to break the back of organized crime and corruption.”

It was the Russian President’s clearest statement to date, that the Yukos investigation is in line with his own policies. But he also dampened fears about a general “reversal of privatizations,” noting that “any action taken by the federal authorities often gets turned into some kind of campaign. . . . I must make it clear that the Yukos case should in no way be seen as setting a precedent or giving rise to analogies and generalizations regarding the results of previous privatizations, and I would ask therefore that all speculation and hysteria on this issue come to an end.”

As Putin spoke, Yukos shares led a 14% one-day drop

in the Russian RTS stock index, prompting the suspension of trading for two hours. In London, Yukos fell by 21% before recovering slightly. Shadrin denied a report in the *Financial Times* of London, that ExxonMobil and ChevronTexaco had broken off talks about a possible partial acquisition of Yukos.

Former government minister Alexander Shokhin, in an interview on radio Ekho Moskv, pointed out that Yukos is held through a network of offshore companies. In addition, Yukos would try to activate its line of succession, for executives to run the company in the event of Khodorkovsky’s removal. An American former Conoco executive is already head of Yukos-Moscow. And among those standing by is Kho-

dorkovsky’s (and Arnold Schwarzenegger’s) friend Lord Jacob Rothschild. But Russian authorities may have something to say about that.

### **Last Major Yeltsin Aide Gone**

The United Russia (Yedro) political party—the so-called party of power—dropped Yukos shareholder and State Duma member Vladimir Dubov from its electoral slate for the December elections. Other Yukos men are running on the Yabloko and the Communist Party tickets.

An even bigger political upset will be the resignation of Voloshin. As of Oct. 29, it is not yet official; but Russian media are carrying source reports that the chief of staff tendered his resignation the evening of Khodorkovsky’s arrest. Voloshin is the last major figure in the Kremlin, held over from “the family” around former President Boris Yeltsin. As rumors of the Kremlin chief’s impending departure swirled around Moscow, Russian markets dropped for the third day in a row. As BBC’s Russian service put it, “Many market players link Voloshin with support for big business”—that is, for the oligarchs, like Khodorkovsky, who got license during Yeltsin’s tenure to loot Russia into penury, in partnership with foreign financial interests.

Also on Oct. 29, Deputy Minister of Natural Resources Alexander Povolotsky met with Deputy Prosecutor General Yuri Biryukov. Sources in the Ministry of Natural Resources (MNR) told Russian reporters that the two agencies will coordinate a thorough check of all licenses issued to Yukos. On Oct. 20, the MNR announced a new “national verification plan,” instituting “comprehensive monitoring to verify the fulfillment of legal requirements in the area of resource exploitation and environmental protection, as well as of the terms of licenses issued.” They are starting with Yukos.