

# HOW THE C



# LOST BILLI

# OLIGARCHS



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*They're the filthy-rich tycoons who bought their way into the Kremlin. First they lost their power — now their cash. Mark Franchetti investigates the rise and fall of the oligarch*



The high-powered gathering took place in the woods outside Moscow at a tsarist hunting lodge built, bizarrely, to look like a German medieval castle, now property of the Kremlin. Guarded by posses of armed bodyguards, Russia's richest men arrived in chauffeur-driven Bentleys, armoured BMWs and the odd Maybach, a £300,000 custom-made limo.

As the billionaires filed past the castle's neogothic towers and took their seats in an oak-panelled dining room, police blocked off the 25-mile road stretch from the Kremlin to allow the evening's host to reach the Meiendorf estate in a motorcade travelling at up to 100mph.

Dmitry Medvedev, Russia's young new president, inaugurated last May, called the informal meeting in November — “strictly no tie”, the Kremlin had ruled — to discuss the world financial crisis with the country's wealthiest and these are the men who most profited from Russia's painful transition from communist central planning to rampant capitalism. Smart, ruthless, well connected and mostly still only in their early forties, they built multi-billion-dollar fortunes in less than two decades.

The mood at the dinner, however, could not have been less celebratory. For in Russia, the

his share in a mobile-phone network.

Seated across from Fridman was Alisher Usmanov, the Arsenal FC shareholder. A little over a year ago I had lunch with Usmanov at his heavily guarded 12-hectare multi-million-pound estate. He was then thought to be worth £5 billion, and in the following months his business was one of Russia's fastest-growing. Now he is said to have lost much of his fortune.

Self-assured and buoyant only a few months ago, nowadays most oligarchs have little choice but to turn to the Kremlin for help if they are to save their empires. The Russian government has pledged £30 billion in rescue loans. That, however, won't be enough given that big business is estimated to have racked up £75 billion in foreign debt, due this year.

The queue of oligarchs standing cap in hand outside the Kremlin includes even Roman Abramovich, the multi-billionaire owner of Chelsea FC whose metals and mining company, Evraz, has already had two state loans totalling £1.7 billion to help him repay foreign creditors.

The trend, warn many, will prompt the Kremlin to use the rescue loans to effectively renationalise valuable assets that it has long wanted to bring back under its control.

Generous bail-outs will give the Kremlin more leverage over a number of key businesses and their owners. But in many ways the crisis is only

the wildest times in the history of Russian business. “The term ‘oligarch’ as understood in the 1990s no longer applies in Russia. Big business has not had real political influence for a long time — not since Putin came to power. It was clear from the beginning that Putin is a decisive person who won't tolerate political manipulation on the part of big business.”

A native of Ukraine who grew up listening to Radio Liberty, Fridman was 17 when he moved to Moscow as an impoverished student. He started out in business under communism by bartering theatre tickets for goods on the black market. He later founded one of the Soviet Union's early private businesses, trying everything — even breeding white laboratory mice — until he started a window-cleaning company. That was the first stepping stone to his Alfa Group, an oil, retail, telecoms and banking conglomerate. Fridman was helped by Pyotr Aven, his business partner. In 1992, Aven was briefly minister for external economic relations when he came into close contact with one of his underlings in St Petersburg's city hall: a former KGB colonel responsible for attracting foreign investment, named Vladimir Putin.

“One thing is to seek to lobby one's business interests with those in power,” says Fridman. “Another is to influence political decisions, say government appointments. We have a right to defend our interests but we do not meddle in politics. I've always thought it's risky to be too close to the country's leading political figures. It's best to have a back-seat role, but in Russia you also need to be able to make yourself heard. Here it can be very damaging for one's business not to have any access to those in power.”

It is a fine line Fridman and Aven trod skilfully when they clashed with Leonid Reiman, Russia's former telecommunications minister, over the ownership of lucrative shares in a national mobile-phone network. In a murky dispute, the two sides sued each other, a risky step for Fridman given that Reiman had Putin's ear. Crucially, so did Aven. As a result the president chose not to intervene, despite damaging corruption allegations against his minister, which only in the end played a likely role in his sacking a year ago.

When last year Fridman and the three other Russian billionaire shareholders in the TNK-BP joint venture fell out with their British partners, a long standoff ensued, in part over the company's CEO. The tycoons wanted him removed. BP stood by him.

But it did not take much to show the Brits who wields more power in the joint venture. The Russian authorities “discovered” a problem with the CEO's work permit. His visa was not renewed and the company now has a new boss. The tycoons, of course, deny pulling strings.

But even Aven, despite his personal relationship with Russia's most powerful man,

## ‘THE CRISIS COULD WIPE OUT MORE THAN HALF RUSSIA'S TYCOONS, WHO'VE LOST, COLLECTIVELY, AN ASTOUNDING £150 BILLION’

oligarchs are those to have been hit hardest by the credit crunch. Since May the country's stock market has lost 80% of its value.

Only a few months ago Russia boasted some 110 dollar billionaires, with more in Moscow than in any other city in the world. The crisis could wipe out more than half. According to one calculation, collectively Russia's tycoons have lost an astounding £150 billion.

Take Oleg Deripaska, the aluminium tycoon who hosted Lord Peter Mandelson on his £80m yacht in Corfu. When, in late spring, I last spoke at length with him, the tycoon was thought to be Russia's richest man, with an estimated value of some £14 billion. But Deripaska, 41 — who to make the dinner with Medvedev flew in his jet to Moscow, en route to an economics summit in Peru — is now said to have lost at least £6 billion. Despite a £3 billion emergency Kremlin loan, he is still heavily in debt.

Or spare a thought for Mikhail Fridman, one of Russia's early tycoons, who also joined the president at Meiendorf. Ranked before the crisis by the business magazine *Forbes* as the world's 20th richest man — valued around £10 billion — Fridman is so cash-strapped that he recently needed a £1.3 billion Kremlin bail-out to keep

the final nail in the coffin for the oligarchs and the power they once wielded.

The relationship between the Kremlin and the men that most here despise as robber barons has changed dramatically since Vladimir Putin — now Russia's prime minister but still its strongman — came to power nine years ago. Post-Soviet Russia popularised the term “oligarch”, but our image in the West of the country's wealthiest tycoons as men who wield political power is outdated.

Today the men we in the West call oligarchs stick strictly to business. A few are closer to the Kremlin, but even they do not meddle. Connections remain key, but to further one's business, not pursue political ambitions. And as in a tribal clan, when the boss comes calling, Russia's tycoons know it is best to oblige, whether it be to sponsor an impoverished sporting team, make a generous donation to a particular cause, or agree to buy or sell a business.

“It's a myth that big business influences politics in Russia today. It's rubbish,” Fridman told me as we sat in his office in Moscow a few hours before he joined Medvedev at Meiendorf. The chairman of TNK-BP, the Anglo-Russian oil giant, Fridman, 44, is one of the most successful pioneers of post-Soviet capitalism, a veteran of



says the oligarchs are a thing of the past. “We are no longer oligarchs,” he stated recently. “I don’t speak Greek, but I understand the word to mean someone who possesses both money and political power. Under Putin, however, the rules have changed. None of us have any political power.”

Things could not have been more different under Boris Yeltsin. Russia was on its knees, plagued by crime, chaos and economic misery. A time of unspeakable hardship for most, it was an era of fantastic opportunities for a few — a generation of canny, fiercely ambitious risk-takers born out of the ashes of the Soviet system. Men of guts, vision and few scruples, they were soon feasting on the spoils of communism.

Arguably, no other country has given birth to such fabulous private wealth so quickly.

Abramovich — an orphan from Siberia who before the credit crunch was thought to be worth £12 billion — started out by selling toy rubber ducks. His close friend Deripaska, who grew up on a farm, told me he was 10 when he saw his first car.

Mikhail Khodorkovsky, the jailed former head of Yukos, once Russia’s largest oil company, ran a dingy student cafe as his first business venture. Boris Berezovsky, Russia’s most powerful oligarch until he fell out with the Kremlin in 2000, was an academic before making a fortune importing cars.

In most cases the quantum leap that turned Russia’s rogue capitalists into powerful oligarchs came courtesy of the Kremlin. In a highly controversial scheme described by some as the sale of the century, Yeltsin’s administration agreed to trade some of the state’s largest properties in return for cash and political support.

By any standards, the tradeoff — sealed through rigged auctions — was sleazy, the profits staggering.

Vladimir Potanin — one of only a handful of early oligarchs to remain at the top of their game

today — snatched up a controlling stake in the world’s largest nickel and platinum producer for a mere \$170m. Before the crisis, the mining giant’s market value hovered around £19 billion.

When Berezovsky went into business with Abramovich — by then a successful oil trader — it took the tycoon only a few days of frantic lobbying to have a presidential decree drawn up and signed by Yeltsin, putting up for sale an oil company specially created for the businessman.

Berezovsky even called late at night on the then head of privatisations at his Moscow home as he watched television in bed — he duly dressed and went back to work to put the paperwork together. Sibneft, the newly formed oil company, was sold to a consortium backed by Berezovsky and Abramovich — then only 29 — for a mere \$100m. Ten years later, Abramovich netted more than £7 billion for the two men’s controlling share.

Fearing a communist comeback, in 1996 Russia’s tycoons bankrolled Yeltsin’s re-election campaign and backed him with their media empires — also built with the Kremlin’s patronage. In a dramatic turnaround, Yeltsin went from certain defeat to winning the elections. The Faustian pact meant the oligarchs no longer influenced the government. They joined it. Said Fridman: “Yeltsin’s circle came to rely on us because we had money and a common goal — to ensure the communists did not return to power. Never did the oligarchs have as much power as between 1995 and 1998.”

The embodiment of that influence was Berezovsky. Still despised by most Russians as a latter-day Rasputin, the tycoon became close to Tatyana Dyachenko — Yeltsin’s daughter and closest adviser — and Valentin Yumashev, the president’s chief of staff, who soon married Dyachenko. Tanya and Valya, as insiders call them, wielded formidable influence. Nobody in Russia had better *dostup k telo* — access to the body, as Russians figuratively describe access to power. They were the gatekeepers. Berezovsky — who survived a car bomb that decapitated his driver — had their ear. He is also the one who introduced them to Abramovich — who became so close to the power couple that he moved in with them at one point.

“I arrived one night at Tanya’s dacha,” recalled one visitor. “And here was this young guy, unshaven and in jeans, unloading very good French wine from his car, stocking the fridge, making *shashlik*. I thought to myself, ‘They’ve got a new cook.’” When he asked, Yumashev laughed: “Oh, that’s Roma — he’s living with us while his dacha is being renovated.”

More than once I had a chance to watch Berezovsky up close when he was at the height of his power. His private offices in a tsarist Moscow mansion known as “the club” felt like a mini-Kremlin. In the lee of armed bodyguards, powerful businessmen and politicians ➤➤➤

waited for an audience with the tycoon, who conducted the meetings around a long white dining table — attended by valets he summoned frequently by pressing a bell.

Addicted more to power and intrigue than wealth, Berezovsky revelled in his image as Russia's grey cardinal. Once, as I sat across from him at the club, he confessed with a mischievous grin that he was plotting to have the Russian prime minister removed. But in a decision that would lead to his downfall, Berezovsky supported Yumashev, Yeltsin's son-in-law, when he singled out Putin as the best man to succeed the ailing Russian president. Both Berezovsky and Abramovich are said to have contributed funds to Putin's election campaign.

On New Year's Eve 1999, when Yeltsin surprised the world by resigning and appointing Putin as acting president, I bumped into Berezovsky at Moscow's Bolshoi theatre. "We have won," he beamed excitedly. "This is the best country in the world and we have the best president in the world," he said of Putin. Little did Moscow's master of intrigue know that this would turn out to be his twilight — the beginning of the end for the political power of Russia's formidable oligarchs.

A shrewd, tough-talking veteran of 16 years in the KGB, Putin did not waste time making his mark. In 2000, at a Kremlin meeting that is now the stuff of legend, the president

has since been granted asylum and become Putin's most vocal opponent.

Berezovsky has spoken many times of his conflict with Putin. By contrast, Badri Patarkatsishvili, his closest friend and business partner of two decades — who also played a key role in Abramovich's rise — liked to keep a low profile. But a few months before a heart attack felled him last year at his multi-million-pound Surrey mansion, I caught up with him at a luxury Dead Sea resort in Israel.

"One evening I was summoned to the Lubyanka [headquarters of the FSB, the former KGB]," Patarkatsishvili told me as he sipped coffee by the pool. "I was driven to the Kremlin with the head of the FSB. Soon I was face to face with Putin. We'd been on good terms since his early days in St Petersburg, when he helped me and Berezovsky set up a car dealership there."

"I need to know who you are with," Putin said," according to the late Patarkatsishvili. "Are you with Boris or with us? If you are with us, you can stay in Russia and your business will flourish. But if you are with Boris, you must understand that everything which hit him will hit you too." The Georgian billionaire soon left Russia and was wanted by Russian prosecutors.

In a telling example of how the relationship between big business and the Kremlin works under Putin, Abramovich bought his former partners' shares in the oil company

## 'KHODORKOVSKY HAD THE ILLUSION THAT HE WAS TOO BIG AND IMPORTANT TO BE TOUCHED. THAT WAS VERY NAIVE'

summoned Russia's most powerful oligarchs and laid down the new rules.

The good news was that they would be allowed to hold onto their ill-gotten gains; the bad, that the days of political interference were over. Putin, who strongly believes in the state, would not tolerate further attempts to privatise the Kremlin. The president followed up his warnings with tough action. He turned on Vladimir Gusinsky, a media oligarch who backed Yeltsin but did not support Putin's candidacy and had turned the might of his media empire against his Kremlin patrons.

Gusinsky, who later fled Russia, was locked up on fraud charges in Moscow's most infamous remand jail. In a hostile takeover that involved masked men cradling AK-47s, his media holding was wrestled back under the Kremlin's control.

Berezovsky, who soon began to publicly criticise Putin's policies, was next. Prosecutors duly launched a string of investigations into the tycoon's businesses. Fearing arrest, in 2001 the man once described as the Godfather of the Kremlin boarded his private jet and left Russia for good, landing in London, where he

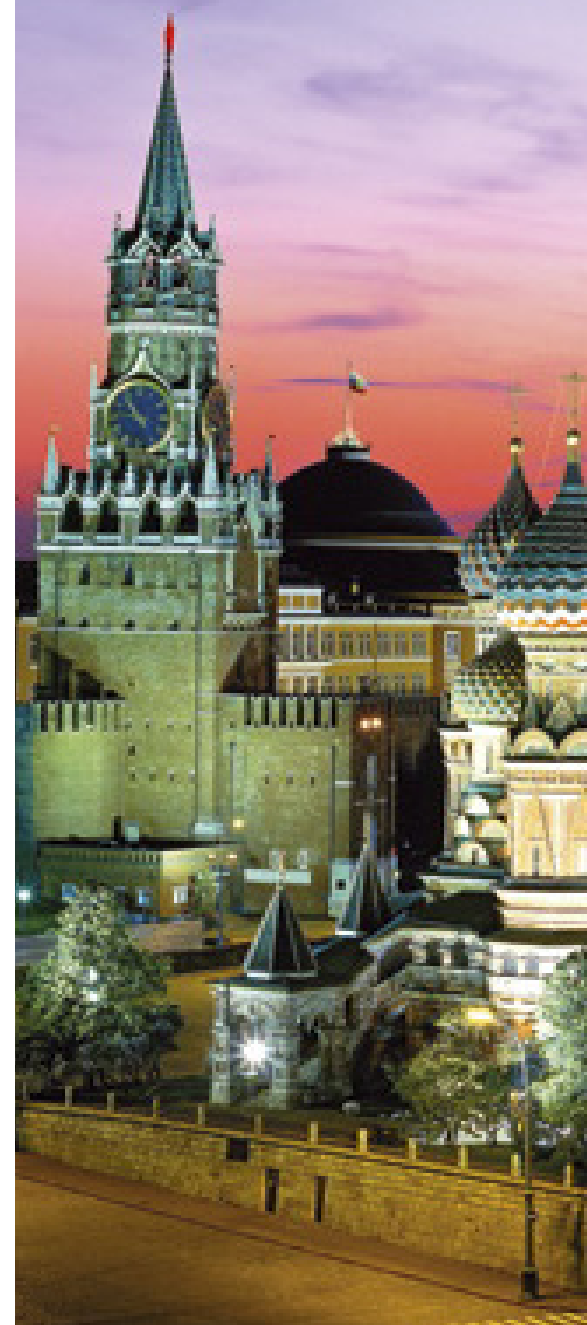
and TV channel they controlled, and duly sold them to the state.

"Abramovich still enjoys a special relationship with the Kremlin," said a former Putin aide. "He can be trusted to buy or sell a business when asked by the Kremlin. He sticks to the rules of the game and accepts who is the ultimate boss in Russia. He's loyal and pays his dues."

With Gusinsky and Berezovsky on the run, Putin took on his next quarry — Russia's richest man. Many factors led to Khodorkovsky's spectacular downfall, but in the Kremlin's eyes his greatest sin was harbouring political ambitions.

The tycoon began financing parties in the Duma, parliament's lower house. Putin and the cabal of former KGB men around him suspected he was seeking to semi-privatise parliament in an attempt to become prime minister.

In the most high-profile example of Russia's system of selective justice, the former billionaire was arrested in 2003, put on trial on fraud and embezzlement charges that could be levied at most early Russian oligarchs, and sentenced to eight years in prison. His trial, say most independent observers, was a travesty of justice. Then in what even Kremlin insiders have



described as state-sponsored theft, Yukos was forced into bankruptcy and its assets sold to a state-owned oil company run by Putin's cronies.

The Kremlin is now orchestrating a new case against the former tycoon, which could lead to a lengthy second sentence. Languishing in a Siberian jail, 3,000 miles east of Moscow, Khodorkovsky, 45, who in the last 18 months has seen his family for only a few hours, remains defiant. "Maybe Putin really thought I was plotting some political coup, which is ridiculous since I was legally supporting two opposition parties that at best could have hoped to win 15% in parliamentary elections," he wrote to me from jail in answer to smuggled questions. "More likely they just needed an excuse to raid Yukos, Russia's most successful oil company. In an independent court only a complete idiot would accept the kind of case brought against me."

"Khodorkovsky's arrest, of course, had an effect on all other oligarchs," said Fridman, who, before the tycoon was jailed, warned him to back off. "People of course became scared. His biggest mistake was failing to understand that it's not possible in today's Russia for a big businessman



**Left: the Kremlin (far left) in Moscow's Red Square**

**Below: Vladimir Putin, who took power away from Russia's billionaires**

**Bottom: new president Dmitry Medvedev at the Meiendorf castle residence near Moscow**



— no matter how high profile — to concentrate so much political power. Khodorkovsky had the illusion that he was too big and important to be touched. That was very naive.”

While reigning in the early oligarchs, Putin has brought back to power a hawkish clique of former KGB agents who see enemies everywhere. He has also given birth to a new club of tycoons, state bureaucrats and Kremlin insiders he has put in charge of Russia's largest state corporations. Putin's closest allies chair the board of Gazprom and Rosneft, the country's largest oil producer. They also run the state railway company, the largest diamond producer, the body licensed to sell arms abroad and a string of other state corporations.

Officially Putin's state tycoons are paid as ordinary civil servants — a claim believed only by the most naive of Russians. In Putin's Russia, for each high-profile figure like Abramovich or Deripaska, there is a behind-the-scenes tycoon few have ever heard about

Take Gennady Timchenko. A close friend of Putin, the former KGB agent co-owns a company that exports a third of Russia's crude oil — and has estimated annual revenues of £45 billion.

Some market analysts believe he is worth as much as £10 billion. That would make him one of Russia's richest men, but in 11 years in the country I have seen only one picture of him.

Or Yuri Kovalchuk. Also close to Putin, the billionaire co-owns a bank and one of Russia's largest insurance companies, which boasts Gazprom as a client. In a titillating link, Alina Kabaeva, the Olympic-gold gymnast and MP said by the media to be Putin's mistress — a claim denied by both parties — is on the supervisory board of Kovalchuk's media company.

Friends in high places are crucial, but like almost everything in Putin's Russia, the oligarchs too are subservient when it comes to the Kremlin. No big business deal is clinched without the blessing of those in power. Whereas under Yeltsin the country's tycoons sought both to accommodate and bully the Kremlin, under Putin they merely strive to accommodate.

When Izvestia, the Russian daily, published heartbreaking images of school children killed in the Beslan terrorist attack, Potanin, the oligarch who had been encouraged by the Kremlin to buy the paper, sacked its editor. He later also sold the newspaper to a state company.

Usmanov, the Arsenal shareholder who bought Kommersant, one of Russia's best business dailies, from Berezovsky and his friend Patarkatsishvili, did not hesitate to step in when the private art collection of the world-famous cellist Mstislav Rostropovich was put up for sale after his death. On friendly terms with Medvedev, Usmanov paid a reported £40m — nearly double what the art was expected to fetch at Sotheby's — and donated it to a state museum. The Kremlin did not ask Usmanov to intervene. Instead, as often happens in Russia nowadays, the billionaire read the signs. “I would not say that I have a special relationship with the Kremlin,” Usmanov, 55, told me as he gave me a tour of his 23,600-square-foot mansion, butler in tow. “But I'd say that those in power look at what I do and probably approve.”

The businessman has also invested in the Dinamo football club, which has close links to the FSB. Deripaska, Potanin and several other billionaires are big investors in the Sochi 2014 Winter Olympics, a pet project of Putin's. Now that Russia's tycoons are desperately seeking to be bailed out by the Kremlin, those funds are highly unlikely to be available, however.

In contrast to the pre-Putin years, today most Russian tycoons have one nagging thought at the back of their mind — they could yet lose everything. No matter how wealthy, well connected and successful, they know things could still turn bad if they anger the Kremlin. “In Russia,” Abramovich likes to say, quoting a native proverb, “you're never protected from poverty or prison.” Referring to his business empire, Deripaska once said that “if the state says we need to give it up, we'll give it up”. He later claimed he was joking.

“In Russia there is a completely different understanding of property rights, just like the rule of law. It's in our history,” said Fridman. “I know that my own property rights here are conditional and I would never start fighting with those in power. It's a waste of time. It's far from being an ideal system, but it's one we have to understand. You need to know where the boundaries are. If you don't like it here, thank God nowadays you can get on a plane and leave. Our parents didn't have that luxury. I, however, have neither reason nor intention to leave.”

A week after the Meiendorf dinner, I asked one of Russia's early oligarchs, a billionaire who attended the gathering with Medvedev, about the future of the country's oligarchy. The tycoon took a sip of green tea, leant back in his oversized black leather chair and broke into a wry grin. “We've long ceased to be oligarchs,” he said. “We're just businessmen. Putin vowed to bring back the power of the state and succeeded. Power still very much lies with him. As for the true oligarchs, the men with both power and money, there are still a few in Russia — but they are our leaders, the men running the country.” ■ 53