

This report relates to the FOI report Managing Elections in Russia: Mechanisms and Problems (FOI-R--2474--SE), which showed that the formal political system is managed by the power elite. The struggle within that elite for control over the state bureaucracy and the economic key sectors is treated in the present report. A proper understanding of this struggle is essential since Russian politics do not reflect an open political process. The mechanisms described in this report are not primarily dependent on individuals such as Putin or Medvedev but rather derive from basic structures, which do not change at the same pace as individuals in the power elite come and go.



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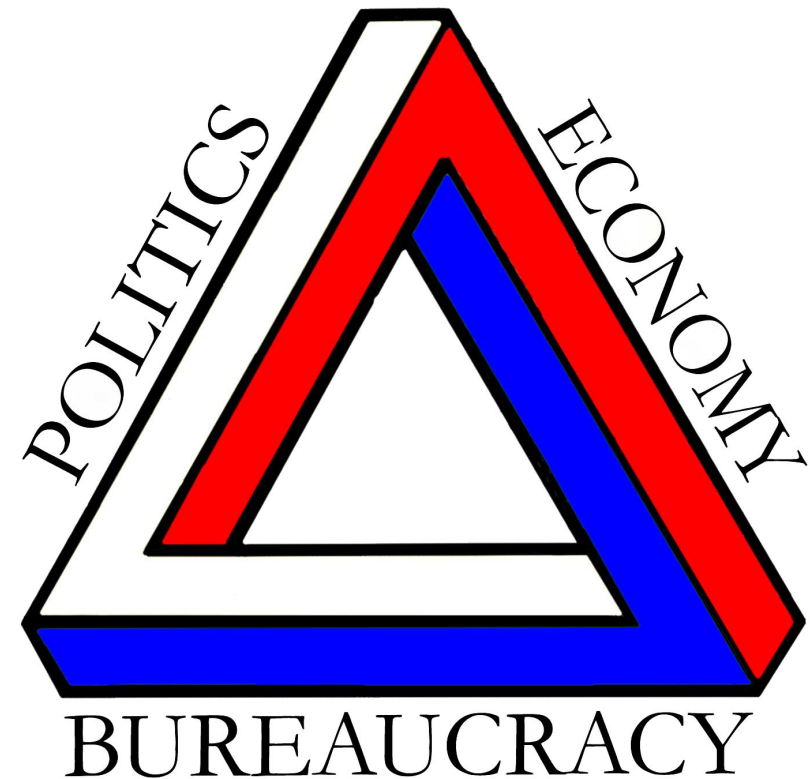


CARL HOLMBERG

The struggle for bureaucratic and economic control in Russia

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The struggle for bureaucratic and economic control in Russia

Hidden dynamics and contradictory perspectives on Russia's
political, economic and bureaucratic systems

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Sammanfattning

Rapporten knyter an till en nyligen publicerad FOI-rapport (*Managing elections in Russia*) som visar hur det formella politiska systemet styrs av makteliten. I denna rapport diskuteras den kamp för kontroll över den statliga byråkratin och över de ekonomiska nyckelsektorerna som pågår inom denna maktelit. Eftersom rysk politik inte är en återspegel eller är ett resultat av en öppen politisk process så är förståelsen för denna maktkamp väsentlig. De mekanismer som beskrivs i rapporten är inte primärt beroende av enskilda personer som Putin eller Medvedev utan kommer av grundläggande strukturer som inte ändras i takt med att enskilda ledare byts ut, även om systemet är långt ifrån statiskt. De byråkratiska institutionerna är svaga och utnyttjas i konflikter mellan klaner vilket bidrar till ytterligare försvagning. Eftersom presidenten måste försöka balansera klanerna försvagas institutionerna även som följd av administrativa reformer. Klankonflikterna har också en brutalare sida med arresteringar, märkliga dödsfall och mord. På det hela taget offras en mängd viktiga politiska frågor vilket drabbar befolkningen i stort. Inom ekonomiska nyckelsektorer har byråkraterna en mycket stark ställning, direkt eller indirekt, vilket är särskilt problematiskt med tanke på hur korrupt Ryssland är. Man tillskansar sig statliga tillgångar genom en rad olika tekniker och vinst från ekonomiska sektorer med stort statligt inflytande hamnar ofta utomlands hos offshorebolag som tycks ha kopplingar till den ryska makteliten. Allt detta betyder dock inte att det saknas en förståelse för de viktigaste problemen Ryssland står inför hos makteliten, bara att den interna maktkampen försvårar en lösning av dem. En öppen politisk debatt skulle förstärka de ryska ledarnas retorik om denna kritiskt jämfördes med de beslut som verkligen fattas. Detta är en självklar men samtidigt grundläggande orsak till dagens anti-demokratiska utveckling i Ryssland.

Nyckelord: Ryssland, politik, Putin, Medvedev, maktkamp, klaner, ekonomi, byråkrati, korruption

Summary

This report relates to a recently published FOI report (*Managing Elections in Russia*), which showed that the formal political system is managed by the power elite. The struggle within that elite for control over the state bureaucracy and the economic key sectors is treated in the present report. A proper understanding of this struggle is essential since Russian politics do not reflect an open political process. The mechanisms described in this report are not primarily dependent on individuals such as Putin or Medvedev but rather derive from basic structures, which do not change at the same pace as individuals in the power elite come and go, even though the system is far from static. The bureaucratic institutions are weak and are used in conflicts between political clans, which further contributes to weakening them. Since the President must try to balance the clans, they are even more weakened by administrative reforms. The clan conflicts also have a more brutal side, with arrests, suspicious deaths and murders. On the whole, a number of important political and other central issues suffer from the power struggle, which affects the Russian people in general. The bureaucrats have a very strong position in key economic sectors, directly or indirectly, which is particularly problematic considering the widespread corruption in Russia. State assets are encroached upon through various techniques, while profits from economic sectors with a large state influence end up abroad in offshore companies which seem to be connected to the power elite. This does not automatically mean that there is a lack of understanding of the problems Russia faces among members of the elite, only that the internal power struggle makes it more difficult to solve them. An open political debate would of course undermine the rhetoric of the Russian leaders if this rhetoric were compared with the decisions actually taken. This is an obvious but at the same time fundamental cause of the current anti-democratic development in Russia.

Keywords: Russia, politics, Putin, Medvedev, power struggle, clans, economy, bureaucracy, corruption

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1 Introduction

This report has been produced for the Swedish Ministry of Defence in order to increase the understanding of Russian domestic politics and decision-making. A key issue is to try to grasp what might change and what will probably not change as a consequence of Vladimir Putin stepping down from the post of President to become Prime Minister and being succeeded by Dmitry Medvedev.

The FOI report *Managing Elections in Russia* analyses the formal political system (political parties, elections, etc.) with the focus on the Duma election in December 2007. The present report describes how the formal political processes are managed by the power elite using various methods. In order to secure the *status quo* in the political system, the power elite has increasingly united around the person of Vladimir Putin in recent years. For the time being, public politics in Russia are a way to prevent the population from interfering in political issues but can also serve as an act of diversion from the more important, underlying mechanisms. Since the formal political system is not the place for the real power struggle, this naturally takes place somewhere else. This report aims to explain where and how.

To understand what determines how Russia is ruled, one must study the struggle within the power elite for control over the state bureaucracy and the key economic sectors. Members of this elite have different bureaucratic and economic bases and can be divided into different 'clans', although these are not easy to define and are constantly changing.

The analysis of this power struggle is also an analysis of some of the main preconditions for exercising power in Russia with which the elected President Medvedev and Putin as Prime Minister have to deal. Some preconditions clearly limit their scope of action. If these underlying mechanisms are not understood, developments in Russia can seem more difficult to understand than they actually are.

This report was produced as part of the FOI project on Russian Foreign, Defence and Security Policy (RUFSP) under the auspices of Jan Leijonhielm, Head of Bureau. I am grateful to him and all the other participants for their constructive comments at a seminar in which a draft of this report was reviewed. The seminar was chaired by Git Roxström and Maria Tisell acted as opponent. I am indebted to them and my colleagues Fredrik Westerlund, Ingmar Oldberg, Jakob Hedenskog, Jan T. Knopf and Robert L. Larsson. Any remaining errors, misinterpretations or other mistakes are of course mine alone.

1.1 Aim of the report

The main aim of this report is to study the struggle for bureaucratic and economic control within the Russian power elite in order to outline important preconditions for ruling Russia. This is achieved by first discussing the driving forces behind political decision-making in Russia and then looking at the nature of the struggle for power within the Russian power elite, with its hidden dynamics.

Naturally this is a vast field for research so this report cannot pretend to present a complete picture, but aims to identify major mechanisms which can then be scrutinised in future research.

Although it is not the primary objective of this report, the analysis of the struggle for control over the economic key areas also offers an explanation as to why Putin and his colleagues from Saint Petersburg City Government became so powerful. Many members of today's leadership, including both Putin and Medvedev, were previously involved in licensing the highly profitable export of natural resources. This gave them a strong position in vital economic sectors that has increased since then.

1.2 Method

This study is mainly a qualitative examination of events, facts and data. In order to confirm the conclusions of the report and possibly revise them, further analysis, including some of a more quantitative type (e.g. of economic data) is required.

This report focuses on the power elite in Russia and the struggle for power among its members. Naturally there are many other aspects that are equally important in understanding Russian politics, e.g. general economic development, opinion-forming processes among the population and their future political implications, and many others. Such aspects certainly also deserve analysis and the results from this study should be combined with the results of such analyses.

This study does not focus primarily on the political and personal ambitions of a few key individuals (Putin, Medvedev and others), but rather examines the preconditions on a structural level that *anyone* who became President of Russia today would have to deal with. A great advantage of placing the focus on major mechanisms instead of on the intentions of leading individuals is that these mechanisms, although far from static, will not cease to exist when these

individuals leave their posts. They will thus still be relevant when Putin, Medvedev or any other central person disappears from the scene.

The struggle for power within the state bureaucracy was mostly characterised by corruption investigations, administrative reforms and appointments under Putin's presidency, many of which were associated with the 'clan war' between fractions of the power elite, which became known to outsiders in the autumn of 2007. From these, it is possible to see how President Putin has tried to balance these clans. These events may seem confusing if the general mechanisms are not taken into account. Why, for instance, did the Minister of Justice and the General Prosecutor change places in June 2006? Why was the Investigative Committee of the General Prosecutor's Office made *de facto* independent of the General Prosecutor a year later?

The control by the power elite over key sectors in the Russian economy is examined by looking at the links between public officials in leading bureaucratic and economic positions and by looking at recent political projects, such as the semi-private 'State Corporations' launched in 2007.

1.3 Sources

Scientific reports, literature and articles have been used as sources. Several FOI reports provided important input, especially two reports on the Russian energy sector by Robert L. Larsson, but also a policy paper from a seminar held at the Institute for Security and Development Policy in March 2008 and entitled 'Russia after Putin: Implications for Russia's Politics and Neighbours'. First-hand sources such as official publications, legal texts for instance, have also been used when possible.

Parts of this report analyse courses of events in Russia during recent years. In order to map these events a rather large number of articles from Russian, and to some extent foreign, newspapers and editorial Internet sources have been used.

When using the media as a source of information it is of course important to take into account the political profiles of different publications. This is complicated by the fact that the Russian media is also subjected to pressure from various state actors and other interests. In order to balance this, media sources of various political profiles have been used, but given the subject of this report it is more likely to find information about the power struggle in more opposition-minded media. One such newspaper, *Novaya Gazeta*, has played a role in one of these conflicts, which makes it more interesting to read but also somewhat problematic

to use. Nevertheless it has been used since it is one of the leading Russian newspapers when it comes to critical analysis of the political situation.

1.4 Definitions

The power elite

The power elite is the group of people that constitutes the political, bureaucratic and economic elite in Russia. The formal political system is in reality subordinate to this elite. The term power elite may seem imprecise, but at the same time it is necessary. One basis for democratic states is the possibility for voters to change the country's leadership, at least partly if not completely, through elections. Voters can introduce new faces and remove others from the country's political leadership. For the time being, Russian voters do not have that possibility and the predominant picture in the West, as well as the official picture in Russia, is that the voters do not want it. The truth is that no one knows what the Russian people want, since they are not allowed to form political alternatives and choose between them in free elections. Naturally, the Russian power elite also changes over time, but mostly as a result of internal processes.

Russian clans

In this report, the word 'clan' is used in a specific meaning and does not refer to structures based on ethnicity or family ties. Instead, it is used to describe personal networks within the power elite mainly on the national level. These can be said to be 'corruption networks' consisting of three basic sub-systems: 1) The commercial or financial network (which 'converts the received privileges into cash'); 2) government officials (who 'provide cover at the decision-making level', usually 'shaded by state interests'); and 3) law enforcement (which 'provides information, destroys compromising files' and 'closes criminal cases').¹

*Corrupt networks between state authorities and business exist at every level throughout the society [...] It is important to note the corruption practices of local and top officials. One of the distinctive features is that the local officials, who receive bribes, are simply commercializing state services. At the top level, generally speaking, there are long-term corrupt relations, which merge government with private business interest.*²

¹ Cheloukhine, Serguei, King, Joseph (2007), 'Corruption networks as sphere of investment in modern Russia', *Communist and Post Communist Studies*, Vol. 40 No.1 March 2007, p. 118.

² Cheloukhine, Serguei, King, Joseph (2007), p. 112.

This report describes how these clans/corruption networks fight for control over key economic sectors and the bureaucracy. As mentioned above, the control over the formal political system has been described in a previous FOI report, but is of course important to bear in mind when reading this report.

The clans referred to in this study are not stable and clearly distinguishable groups of people. This means that the most important treatment of the clans from our perspective is not to map them in detail and reveal their agenda, but rather to consider the clan struggle as an important aspect in the policy-making and governing of Russia, in the absence of an open political struggle between different ideologies.

A book about Russian domestic politics under Putin, *Securitising Russia*, is partly based on some 40 interviews with Russian politicians, journalists, academics and NGO workers. Many of these saw the main factor behind Putin's appointments as being 'personal links and loyalty typical of the personalisation of the political system of post-Soviet Russia'. This led the authors to suggest that many of Putin's appointments of people with a similar background to his own was 'a product of the way the country is governed, rather than being the result of a conscious strategy'.³ Personal networks or clans as opposed to groups formed around a political ideology must be taken into account when analysing Russian politics.

³ Bacon, Edwin, Renz Bettina, Cooper, Julian (2006), *Securitising Russia – The Domestic Policy of Putin*, pp. ix, 33-34.

2 Driving forces behind political decision-making in Russia

Before we move on to examine the nature of the struggle for bureaucratic and economic control, a few words should be said about the driving forces behind political decision-making in Russia. A brief overview is given here of the conceptual and bureaucratic framework and different types of personal motives.

The so-called Putin Plan, a political programme that was launched during the Duma campaign in 2007, claimed to be a guiding document for Russia's next President. Irrespective of whether this plan is taken as a serious political programme or more as a justification of the current system, some kind of political idea or at least a conceptual framework⁴ is needed for ruling the country. The experience and knowledge accumulated over time of how to rule and keep together a country so large and diverse as Russia is such a framework.⁵ This is vital, if only for the sole purpose of remaining in power.

The political situation in Russia may seem stable at first and the stability has been manifested by President Putin and the Power Vertical.⁶ However, there were signs of a lack of coherent policy under Putin, e.g. reforms and appointments to important posts were often announced without credible motivations.

The drastic reduction in the number of deputy ministers as a consequence of the administrative reform of 2004, together with the declared goal of separating the tasks and functions into three types of federal authorities (ministries, federal

⁴ Some key concepts in Russian politics are described in further detail in Holmberg, Carl (2008), *Managing Elections in Russia*, Stockholm Swedish Defence Research Agency (FOI), February 2008, User report, FOI R-2474--SE, pp. 16-19.

⁵ Anna Jonsson, for example, has argued that in order to be successful in controlling the bureaucracy, economy, media and civil society, the power elite needs to understand public opinion. See: Jonsson, Anna (2008), 'The nature of power in Russia and its impact on the international community', *Russia after Putin: Implications for Russia's Politics and Neighbors*, March 2008, Policy Paper, Institute for Security and Development Policy (Stockholm-Nacka: 2008), p. 7.

⁶ The power vertical is the political idea of strong Presidential control, or at least the right and possibility to control the political system, in a top-down process. This model is legitimised by the ambition to save Russia from chaos and decay, i.e. to create and ensure political stability. Stability is attained by the subordination, or removal, of alternative political power bases, thus severely limiting the scope of action by the political opposition. Holmberg, Carl (2008), p. 16.

services and federal agencies), were said to be needed. However, almost immediately after this had been implemented, the number of deputy ministers started to grow again and the division into three types of federal authorities was subsequently abandoned.⁷ The number of deputy Prime Ministers has also been continuously growing since 2004, when the number of ministers was reduced drastically and six deputy Prime Ministers were given responsibility for different political blocs (consisting of several different ministries). Despite this, a similar structure was in fact restored by 2007, this time partly to provide a platform for Putin's two main successor candidates, Dmitry Medvedev and Sergey Ivanov.

Official policy declarations need to be taken seriously, but one has to bear in mind that the President and government officials also have driving forces other than what is officially declared. The Presidential honours policy is particularly revealing. What explanation can there be for Putin presenting the President of the Russian republic of Ingushetiya, Murat Ziazikov, with a state award for his great achievements in the socio-economic development of the republic?⁸ According to the official description, the 'State honors [sic] of the Russian Federation are the highest form of official recognition given to individuals for service to the nation'.⁹ However, the situation in Ingushetiya under Ziazikov has developed into 'the most critical within the entire North Caucasus region'.¹⁰

Apart from the conceptual and bureaucratic framework, it is clear that policy-making and the exercise of power in Russia, as elsewhere, is also determined by personal motives, such as an ambition to maximise personal profit, but also by personal convictions of a more idealistic nature. This aspect is of particular interest for the study of a country such as Russia, where personal motives can

⁷ Vendil Pallin, Carolina (2006), *De ryska kraftministerierna: Maktverktyg och maktförstärkning*, FOI-R--2004--SE, Juni 2006, (Stockholm: Swedish Defence Research Agency (FOI)), pp. 72-75; Leijonhielm, Jan, Knoph, Jan T., Larsson, Robert L., Oldberg, Ingmar, Unge, Wilhelm and Vendil Pallin, Carolina (2005), *Rysk militär förmåga i ett tioårsperspektiv – problem och trender 2005* [Russian Military Capability in a Ten-Year Perspective – Problems and Trends 2005], (Stockholm: Swedish Defence Research Agency (FOI)), June 2005, User Report, FOI-R--1662-SE, pp. 39-40; 44-45. The current structure of the higher echelons of the bureaucracy: Russian Government (2008), the federal authorities, last accessed 14 March 2008, Internet: <http://www.government.ru/government/executivepowerservices/>

⁸ Presidential administration (2008), Ukaz Presidenta, last accessed 29 February 2008, Internet: <http://document.kremlin.ru/doc.asp?ID=044321>.

⁹ Presidential administration (2008), about state awards, last accessed 29 February 2008, Internet: <http://www.kremlin.ru/eng/articles/president07.shtml>.

¹⁰ Dunlop, John (2007), *Putin, Kozak and Russian Policy toward the North Caucasus*, The Jamestown Foundation, p. 8

have a great impact on political decisions since they are generally taken without public debate or openness.

It is sometimes suggested that there might be a secret political agenda or plan, apart from Putin's Plan and other official policy documents. However such a hypothetical agenda would probably best be described as the sum of personal motives of a number of influential individuals.

3 The struggle for control

The power struggle within the power elite is largely a struggle between clans and this struggle will probably continue as under Putin's presidency. However, no clan can be expected to gain total control, as weaker clans tend to join forces against the current strongest clan. Most clans will also split over time since they are not united by any common long-term goal, but rather consist of many personal goals.

3.1 Control over the State bureaucracy

The Russian bureaucratic institutions often serve the interests of one or several clans. During an open conflict between clans, their affiliation, which may be rather temporary, becomes easier to distinguish, but such open conflicts are rare. However, the existence of a major clash between two clans, referred to as the 'clan war', became publicly known in October 2007. This conflict is relatively easy to study and has had a great impact on many members of the power elite, and it is therefore used in this report to exemplify a number of interesting patterns and mechanisms that the clan conflicts create. The ways in which the political, administrative and legal processes work in Russia are important preconditions for ruling the country, in many respects more important than the personal political ambition of Putin, Medvedev or any other single influential individual.

One of the clans involved (see Appendix 1) has formed around the head of the Federal Security Service (FSB), Nikolay Patrushev, and the deputy head of the Presidential Administration, Igor Sechin. The other clan has formed around Viktor Cherkesov, the head of the Federal Service for Control of Narcotics (FSKN), and Viktor Zolotov, head of the President's Security Service (SBP), which is a part of the Federal Protection Service (FSO).¹¹ In this study these are referred to as the Sechin clan and the Cherkesov clan, but members of both these clans have been referred to as *siloviki*, because most of their members have a background, or still work, in the Security services.

¹¹ See for instance Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/>.

The creation in March 2003 of a state committee to fight the drugs trade (Gosnarkokontrol), which later became the FSKN,¹² was conducted in a rather peculiar way. First of all it can be questioned whether the President had the right to abolish state structures founded on laws, which can only be amended by Parliament. Secondly, Gosnarkokontrol was established on the basis (including most personnel) of the Federal tax police, whose task was transferred to the Ministry of the Interior instead.¹³ This meant that most of the 40 000 staff simply switched from fighting tax evasion to fighting the drugs trade, at the same time as the drug fighting directorate of the Ministry of the Interior (UBNON) was abolished. The rather significant difference in nature of these two tasks probably presented the staff of Gosnarkokontrol with considerable difficulties in adapting to their new task. The radio station Ekho Moskvyy's political analyst Yevgeny Buntman made the following remark on the FSKN:¹⁴

Only at first glance is the Anti-narcotics Agency a service responsible for combating drug trafficking. [...] In actual fact, it is yet another special service, no less influential than others. And it was created, among other things, to control the siloviki. Hence it was granted enormous powers.

It is impossible to determine exactly when the clan war began, but most observers¹⁵ and people directly involved¹⁶ point to it being provoked by two corruption investigations, nicknamed 'Tri Kita' (named after a furniture store central to an investigation of a smuggling case and initiated in 2000) and 'the Chinese connection' (referring to the smuggling of goods from China and initiated in 2005). The Tri Kita investigation almost immediately became a threat to several high-ranking people at the FSB, who were the protégées of its head,

¹² Presidential Administration (2003), Ukaz Prezidenta from 11 March 2003, last accessed 17 March 2008, Internet, <http://document.kremlin.ru/doc.asp?ID=16650&PSC=1&PT=3&Page=1>.

¹³ Bacon, Edwin, Renz Bettina (2003), 'Restructuring security in Russia: Return of the KGB?', *The World Today*, No. 5 Vol. 59, (2003).

¹⁴ Johnson's Russia List (2007), 'As elections near, rivalries in Putin circle heat up', No. 216 2007.

¹⁵ See for instance Bayev, Pavel (2007), 'Infighting among Putin's siloviki escalates to a clan war', Published 11 October 2007, accessed by www.jamestown.org/edm/article.php?article_id=2372492; 'Settling scores in the leadership of the Russian secret service' and 'Hunting scenes in Moscow', www.russia-intelligence.fr accessed through Johnson's Russia List, No. 214 2007.

¹⁶ See for instance one of the main participants, Viktor Cherkasov: *Kommersant* (2007), 'Nelzya dopustit, chtoby voyny prevratilis v torgovtsev', published 9 October 2007, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=812840> or the wife of one of the people involved, General Bulbov: *Kommersant* (2007), 'Poluchayetsya, chto generalu Bulbobu platili rodstvenniki i druzya', published 11 October 2007, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=813686>.

Nikolay Patrushev. It seems clear that the two investigations were actually aimed at top officials in the FSB and in some other authorities.¹⁷

Over the years, these investigations have been closed and reinitiated, some of those involved have been murdered and others arrested, and several of the investigators have themselves been arrested. When the many episodes are put together it seems evident that Putin has been involved not only as an arbitrator but has also by active means tried to balance the different clans, and probably used Cherkosov's clan to monitor the more powerful Sechin clan.¹⁸ How the FSKN became involved in the two smuggling cases is not fully evident, but it seems likely that Putin assigned them the task of monitoring the leadership of the FSB in order to control the most powerful of the security agencies dominated by the Sechin clan. Although perfectly rational from Putin's point of view, it is remarkable that the anti-narcotics service conducts investigations that are obviously not consistent with its official task. The establishment of the FSKN is an example of major administrative reforms that seem to have been made out of concern for the power balance between rival clans. Important political issues (such as the fight against illegal drugs) have thus been sacrificed and instead used as a pretext.

A closer study of this clan war reveals some interesting patterns and mechanisms that are most likely typical of the power struggle within the bureaucracy.

- The authorities involved, or subdivisions of an authority, act according to the interests of a specific clan. They make a U-turn in their policy if control over it changes from one clan to another.
- The control by one clan over a specific authority can be challenged through the installation of a person linked to a rival clan in a key position, for instance the post of deputy head. This method can only be applied by or with the consent of the President, who uses it to balance different clans.
- Putin has used important administrative reforms and appointments to balance different clans. This has often meant support for the weaker clan. This could also be interpreted as the clans being unequally successful in promoting their interests with the President.
- Different institutions in the legal system controlled by rival clans can initiate or close legal cases against rivals. An investigation against the interests of one

¹⁷ Novaya Gazeta (2006), 'Generaly shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2007, Internet: <http://www.novayagazeta.ru/data/2006/75/13.html>.

¹⁸ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya', No 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>.

clan can be neutralised by starting a case against those conducting that investigation.

- Authorities are not able to perform their duties independently. Such an important authority as the General Prosecutor's Office, a crucial part of the legal system, has in reality been divided between two fighting clans.
- Important political issues, such as combating the illegal drugs trade, are sacrificed to balance the clans.
- Clashes between clans can be caused by the struggle to control money flows from illegal activities conducted by the Russian authorities.
- Elected politicians are involved in this, both on a regional and a federal level.
- Murders, including suspected poison murders, seem to be part of the struggle.¹⁹

The consequences of clan conflicts thus extend beyond simply affecting the direct interests of the clans. Their actions are not only a question of manipulating the existing legal and bureaucratic system to benefit the interests of the clans, but rather of creating patterns and mechanisms which form the system itself. This affects the whole country and if this specific clan war is not an exception, which no observer seems to think, these kinds of conflicts must be taken into account when Russian policy-making is analysed. The clan war is presented in further detail in Appendix 1.

3.2 Control over key economic sectors

The key economic sectors, apart from the bureaucracy, form yet another important arena where the actual power struggle takes place. There is currently a tendency towards more state involvement in the economy.²⁰ A recent study published by the FOI puts its finger on the unclear boundary between state-

¹⁹ A few other murders of rather high-ranking persons working for state interests that are probably part of other similar clan conflicts are discussed in an article in *The Moscow Times*. What is worth paying extra attention to is the action of authorities such as the Police (Ministry of the Interior), who for instance classified the death of Oleg Zhukovsky, managing director of the state-controlled bank Foreign Trade Bank (*Vneshtorgbank*), as suicide despite the fact that Zhukovsky's arms and legs had been tied and he had a plastic bag over his head. *Moscow Times* (2008), 'The news that doesn't get reported', published 6 March 2008, last accessed 6 March 2008, Internet: <http://www.moscowtimes.ru/stories/2008/02/06/007.html>; See also *Kommersant* (2007), 'Samoubiystvennyye argumenty', published 8 December 2007, last accessed 7 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=834069>.

²⁰ An increasing share of GDP is coming under state control. Leijonhielm, Jan (2008), 'Medvedev's economic plan: A liberal economist in the making?', *Russia after Putin: Implications for Russia's Politics and Neighbors*, March 2008, Policy Paper, Institute for Security and Development Policy (Stockholm-Nacka: 2008), p. 21.

controlled economic interests and economic interests loyal to the state, which is essential in understanding how the redistribution of larger assets works in today's Russia:

It is foremost a question of a non-transparent redistribution of resources, belonging to independent and foreign corporations, to Russian state-loyal corporations, rather than the state per se. The process results in a symbiotic situation where the possibility to combine patriotic policy with private economic profit is great. An important element in all this seems to be the use of middlemen, which facilitate wide-scale corruption and economic criminality that could perfectly well be politically accepted.²¹

As for the role of criminal cases in the struggle between different economic interests, i.e. clan interests, the newspaper *Kommersant* made the following remark:

Late Russian history shows that redistribution of property is often accompanied by criminal cases. Yukos became a case in point. The selling of Mikhail Gutseriev's Russneft is also going on in view of a criminal case. The lawyers of the owner of 'Arbat Prestige', Vladimir Nekrasov, confirm that their client got an offer to sell his business at a highly reduced price.²²

The case involving Nekrasov is discussed further below.

The words of a former KGB operative also add to this picture, although he probably puts too much emphasis on the role of the secret services. (This report argues that it is more appropriate to focus on the struggle between clans rather than on state authorities and institutions, although many of them, such as the above-mentioned Sechin and Cherkasov clans, clearly have strong links to the security agencies.)

I am very confident that most of the prominent Russian banks, joint ventures, and commercial firms were (and I believe continue to be) under the strict control and unwavering surveillance of the Russian secret services. The secret war between Russian financial institutions and big companies in order to increase profits and, as a consequence, increase their influence and power in the country, has been carried out, in reality,

²¹ Larsson, Robert L. (2008), *Energikontroll: Kreml, Gazprom och rysk energipolitik*, (Stockholm: Swedish Defence Research Agency (FOI), January 2008, User Report, FOI-R--2445-SE, p. 7.

²² *Kommersant* (2008), 'Dokapyvayetsa spetskorrespondent otdela biznesa Denis Rebrov', published 26 February 2008, last accessed 26 February 2008, Internet: www.kommersant.ru/doc.aspx?docsid=856601.

*mainly between Russia's secret services. Serious analysis of Russia's current economic state and the true reasons why government reforms are or are not being implemented would require, first of all, that one discovers which service's interests the reforms affect.*²³

Many prominent members of the power elite have positions in both the bureaucracy and the economy, often in state-controlled or state-loyal companies. It could even be argued that these persons are being granted 'fiefdoms' in different economic sectors in return for loyalty,²⁴ and most economic sectors, or at least the strategic ones, have their 'coordinators' or protectors in the bureaucracy.²⁵ A recently issued FOI report has described how this looks in the energy sector.²⁶ There are similar examples from other economic sectors, predominantly other strategic, state-dominated sectors, but the list of persons who have positions in both politics and in the economy is constantly changing. Sometimes personal influence can be exercised via family ties, such as in the case of the FSB head Nikolay Patrushev whose son Andrey is advisor to the oil company Rosneft's board of directors and whose other son, Dmitry, is vice-president of the state-run bank Foreign Trade Bank (Vneshtorgbank). Similar influence can also be obtained through wives, practically never husbands, since there are almost no women in top positions. One rare exception is the governor of Saint Petersburg, Valentina Matvienko, whose son is vice-president of Vneshtorgbank.²⁷

It is of course fully legitimate for the state to place its representatives in state-owned companies and for the state to decide to exercise direct control over a certain economic sector. In the Russian case this is problematic, however, because of the generally acknowledged corrupt nature of the Russian state. The extent of corruption is even so large that Dmitry Medvedev has promised a national programme to increase the fight on corruption: 'The legal nihilism is

²³ Kouzminov, Alexander (2005), *Biological Espionage – Special Operations of the Soviet and Russian Foreign Intelligence Services in the West*, (London: Greenhill Books), p. 134.

²⁴ Blank, Stephen (2008), *The Putin Succession and its Implications for Russian Politics*, (Stockholm-Nacka: Institute for Security and Development Policy), p. 7.

²⁵ 'By 2006, one-third of the national wealth was controlled by companies chaired by five Kremlin officials.' Sherr, James, 'Russia and the "Near Abroad" in a Medvedev Presidency', *Russia after Putin: Implications for Russia's Politics and Neighbors*, March 2008, Policy Paper, Institute for Security and Development Policy (Stockholm-Nacka: 2008), p. 29.

²⁶ Larsson, Robert L. (2008), pp. 33-35.

²⁷ Radio Free Europe/Radio Liberty, last accessed 3 February 2008, Internet: <http://www.rferl.org/featuresarticle/2007/10/B0889FF1-5A61-455E-9AAD-815D08AA2CC3.html>.

reflected in the form of crimes, including corruption in the state organs – a corruption that today has enormous extent.’²⁸ As is shown below, there are reasons to believe that state interests are being used as a pretext for protecting personal economic interests and those of various clans.

Assets controlled by state authorities are usually not subjected to scrutiny by any independent body. One such example is the Administrative Department of the Presidential Administration (Upravleniye delami, Putin was its deputy head 1996-97), which, apart from various privileges for the ruling elite, also controls a number of companies and institutions. How these are managed is not made public. This gives those in control of them good opportunities to benefit personally, but also to buy loyalty from others. Bought loyalty can be used to promote the Kremlin’s policy in the Duma, for example. Given the widespread corruption in Russia and earlier corruption scandals in the Administrative Department, such assessments are not very far-fetched. The Administrative Department also appears to have been given the task of mediating funding from private businesses aimed at financing the work of the National Anti-terrorist Committee (NAK, under the FSB).²⁹

The latter could be an example of the ruling elite forcing private businesses to ‘contribute’ to their personal enrichment using a legitimate state activity as cover. Otherwise it is hard to understand why private businesses should have to finance a state authority.

Two main strategies that help members of the power elite to secure personal wealth are covered in this report.

1) Corruption in Russia includes not only bribery but also rent-seeking. The main goal in the struggle for economic control is to secure a position with access to a money flow, whether it is funds from the federal budget or profit from state-owned or other companies. Information on this is generally hard to access and difficult to verify, but often becomes public in connection with various corruption scandals.

2) Profits from key economic sectors, often state-controlled or with a large state involvement, are ‘privatised’ and often end up abroad. Offshore companies or

²⁸ Newsru.com (2008), ‘Kandidat v prezidenty Dmitriy Medvedev oglasil svoi predvybornyye tezisy’, published 22 January 2008, last accessed 17 March 2008, Internet: http://www.newsru.com/arch/russia/22jan2008/yanvarskie_tezisy.html.

²⁹ Vendil Pallin, Carolina (2006), pp. 162-163, 166-167.

other middlemen, which in some way or another are linked to the power elite, are used.

3.2.1 Access to money flow

3.2.1.1 State dominance in key economic sectors

The most important economic sectors considered strategic in Russia are dominated by state-controlled or state-affiliated companies. The ambition to have a state presence in strategic economic sectors is legitimate, but problematic for a highly corrupt country such as Russia, especially since these sectors fairly well represent the economically most profitable sectors. Since most of these sectors deal with exportation, this also affects the importing countries.

The advocating of 'economic security', demanding increased state control, was common in the mid-1990s but was more an issue of rhetoric than a reality. The 'securitisation' initiatives in the economy have so far concerned sectors said to be crucial for national security.³⁰ In recent years there have been discussions on a law to limit 'foreign investments in commercial structures which have strategic significance for the national security of the Russian Federation', as Putin declared in 2005. The economic sectors referred to were foremost exploitation of natural resources (such as energy resources and metals) but also the Military Industrial Complex. Putin said that these should be controlled by 'national' capital (including state capital).³¹ A draft law was sent to the Duma in 2007, intended to come into force in late 2007, but it was postponed to after the presidential election on 2 March 2008. The draft, according to information in the press from February 2008, specified 39 strategic economic sectors, including the Military Industrial Complex, the atomic energy sector, natural assets and, slightly more surprisingly, fishing and the electronic media.³²

The fact that the power elite has gained control over huge assets will most likely have implications for future economic policy in Russia, since the elite will be interested in creating favourable economic conditions for themselves. The

³⁰ Bacon, Edwin, Renz Bettina, Cooper, Julian (2006), p. 171.

³¹ Plan Prezidenta Putina – Rukovodstvo dlya budushchikh prezidentov Rossii (2007), ed. Gleb Pavlovsky, (Moskva:Yevropa), pp. 209-210.

³² Kommersant (2007), 'Inostrannym investoram gotovyat plavayushchiy kontrol', published 27 February 2008, last accessed 27 February 2008, Internet: www.kommersant.ru/doc.aspx?DocsID=857063&NodesID=4.

question is whether this will benefit Russia in general, the interests of the elite or both. Jadwiga Rogoza at the Centre for Eastern Studies in Warsaw puts it this way³³:

In the past 8 years the ruling elite has acquired control over huge assets (mainly state-owned). In the immediate future many of these assets may be partially privatised, and the elites will be interested in creating favourable economic conditions for these enterprises. [...] These changes [reduction of the tax burden, reduced export duties and similar things advocated by Medvedev and others] are likely to be implemented in a selective and fragmentary manner to match the interests of large enterprises, controlled by the Kremlin elites, especially in the fossil fuels sector, arms industry and new technologies sector.

3.2.1.2 State corporations and other similar structures

There are many strategies to ensure the power elite's control over an economic sector. In 2007 a new phenomenon appeared, the State Corporation (Goskorporatsiya). A State Corporation is a holding company by which it is possible to promote state interests and implement political goals in a certain economic sector. It also provides the opportunity for state bureaucrats to dominate that economic sector, which is often very profitable. Furthermore, it gives those controlling these Corporations access to federal budget funds, without much, if any, continuous monitoring by independent control bodies. According to the Constitution, the Accounts Chamber controls the federal budget funds,³⁴ but that control does not extend to the State Corporations, whose activity is only monitored by internal control commissions that report to the President and the Cabinet.³⁵

The political analyst Aleksey Makarkin, from the Centre for Political Technologies, has summarised the political idea behind the State Corporations. According to him, the State Corporation in the atomic energy sector (Rosatom) meets two important goals: it provides this sector with the opportunity to attract

³³ Rogoza, Jadwiga (2008), 'The presidential election in Russia, and its consequences for Russia and the world', *CEC Commentary*, Issue 1, 3 March 2008.

³⁴ Accounts Chamber, last accessed 3 February 2008, Internet: <http://www.ach.gov.ru/>.

³⁵ These internal control commissions are described in the individual laws on the State Corporations: Federal law on Bank Razvitiya from 17 May 2007; Federal law on Olimpstroy from 30 October 2007; Federal law on Rosnanotekh from 19 July 2007; Federal law on Rosatom from 1 December 2007; Federal law on Rostekhnologiya from 23 November 2007; Federal law on Fund to reform the public housing complex from 21 July 2007.

investment and at the same time secures the state interests in the sector.³⁶ Most of the companies controlled by existing or proposed State Corporations are former FGUPs (Federal State Unified Companies), which have had problems attracting new capital. However, as soon as they are transformed into OAOs (Open Joint-Stock Companies) they can use IPOs (Initial Public Offerings) and other means to attract investment (including foreign capital).³⁷ A State Corporation can control many OAOs.

Six State Corporations have been created so far in different sectors: banking, public housing, nanotechnology, construction work for the Winter Olympics in 2014, weapons export and atomic energy. During the last year or so, plans for creating several state-owned corporations in different economic areas, in addition to the six existing Corporations, have been discussed quite frequently in the Russian printed media. The existing State Corporations are described in more detail in Appendix 3.

A few aspects characterise the State Corporations in general, but each State Corporation is regulated by individual laws, which differ considerably from each other. It is particularly interesting to note the different degree of influence by the Cabinet and the President, especially since Putin is moving from the post of President to that of Prime Minister and Medvedev is moving from the Cabinet to become President.

A legal dictionary characterises the State Corporations in the following way (which is confirmed by a study of the actual laws):³⁸

- Founded by the Russian Federation to fulfil social, administrative or other functions of interest to the society.
- Founded on the basis of federal law.
- Assets transferred from the State to a State Corporation become the property of the latter.

³⁶ Gazeta.ru (2007), 'Nedelimiy Rosatom', published 11 October 2007, last accessed 17 March 2008, Internet: <http://www.gazeta.ru/business/2007/10/11/2232691.shtml>.

³⁷ Novaya Gazeta (2007), 'Prinyat ogon na svoj schet', No. 92, published 3 December 2007, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2007/92/12.html>.

³⁸ Bolshoy yuridicheskiy slovar, about 'Gosudarstvennaya Korporatsiya', last accessed 21 February 2008, Internet: <http://slovari.yandex.ru/dict/jurid/article/jur1/jur-1304.htm>. Federal law on Bank Razvitiya from 17 May 2007; Federal law on Olimpstroy from 30 October 2007; Federal law on Rosnanotekh from 19 July 2007; Federal law on Rosatom from 1 December 2007; Federal law on Rostekhnologiya from 23 November 2007; Federal law on Fund to reform the public housing complex from 21 July 2007.

- The responsibilities of the State Corporations are not the responsibilities of the Russian Federation, if the law does not stipulate that.
- The responsibilities of the Russian Federation are not the responsibilities of the State Corporation, if the law does not stipulate that.
- The State Corporation is allowed to engage in business if this serves the goals for which it has been founded.

Other significant aspects of the State Corporations are that they are non-commercial organisations, that they receive their assets from the State and that they cannot go bankrupt.³⁹

Apart from these State Corporations, other state-controlled corporations have been formed on the bases of Presidential *ukases*. Two examples are OAK (Obyedinennaya avioostroitel'naya korporatsiya, United Aeronautics Industry Corporation) and OSK (Obyedinennaya sudostroitel'naya korporatsiya, United Shipbuilding Corporation). There have been suggestions of forming different types of 'corporations' in many different economic fields.⁴⁰

Apart from serving political goals, the state-owned holding companies are useful for members of the power elite to promote and protect their control over an economic sector from domestic and foreign competition. Furthermore the State Corporations provide access to budget funds or other federal property⁴¹ and control over profits made by state-controlled companies beyond the reach of the Accounts Chamber.⁴²

There has been internal Russian criticism of the State Corporations. In March 2008, a draft assessment on the State Corporations, by the Federation Council's Committee for Industrial Policy, expressed strong criticism. The main points were:

³⁹ Nezavisimaya Gazeta (2007), 'Torzhestvo goskapitalizma', published 28 December 2007, last accessed 17 March 2008, Internet: http://www.ng.ru/economics/2007-12-28/4_goskapitalizm.html.

⁴⁰ Nezavisimaya Gazeta (2007), 'Torzhestvo goskapitalizma', published 28 December 2007, last accessed 17 March 2008, Internet: http://www.ng.ru/economics/2007-12-28/4_goskapitalizm.html.

⁴¹ This is regulated in each individual law. Federal law on Bank Razvitiya from 17 May 2007; Federal law on Olimpstroy from 30 October 2007; Federal law on Rosnanotekh from 19 July 2007; Federal law on Rosatom from 1 December 2007; Federal law on Rostekhnologiya from 23 November 2007; Federal law on Fund to reform the public housing complex from 21 July 2007.

⁴² Kommersant (2007), 'Sovet Federatsii izuchit prirodu goskorporatsiy', published 27 March 2008, last accessed 28 March 2008, Internet: www.kommersant.ru/doc.aspx?DocsID=871815&NodesID=2.

- Significant state-owned assets become non-state owned without the state having any sufficient control functions
- There are insufficient ways to control and evaluate how the State Corporations fulfil their goals.
- There are no ways to hold the leaders of the State Corporations responsible if they fail to fulfil their task.
- The State Corporations open the road to uncontrollable ‘wild privatisation’.
- State Corporations such as Rosatom and Rostekhnologiya have been given the right to determine State policy and issue normative regulations, which is against the law.

3.2.2 Privatising profit from state-dominated economic sectors

Profits from state-dominated economic sectors are often ‘privatised’ with the help of offshore companies and end up beyond the reach of the Russian tax authorities and public control. It is widely assumed, although difficult to prove, that this money is accessed by members of the Russian power elite. The magnitude of the sums at the very least makes it highly unlikely that the power elite are not aware of the phenomenon and it is difficult to think of another plausible explanation as to why this practice would otherwise be allowed to continue.

Many export-orientated companies are cooperating with numbers of offshore companies. The offshore companies are used to escape taxes and to minimise insight into who is in control of the trade and where most of the profits end up. The profit is further increased since the trading companies can often buy at reduced, internal prices from Russian companies and sell at world market prices.⁴³ This makes the profit lower for the Russian, often state-controlled companies, and higher for the offshore trading companies, which are often believed to have links to the power elite.

So-called internal offshore companies have also been used, at least until 2004.⁴⁴ Companies registered in Russian regions such as Kalmykiya, Chukotka, Ingushetia, Mordoviya and the Russian-controlled Baikonur-Cosmodrome area

⁴³ Kommersant (2008), ‘Dokapyvayetsa spetskorrespondent otdela biznesa Denis Rebrov’, published 26 February 2008, last accessed 26 February 2008, Internet: www.kommersant.ru/doc.aspx?docsid=856601.

⁴⁴ Kommersant (2005), ‘Dokopalis’, published 11 February 2005, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=546458>.

in Kazakhstan, for example, were exempted from paying the usual taxes.⁴⁵ This most likely also served as a way for regional elites, especially in regions which otherwise did not benefit much from foreign trade, to have their share.

Offshore trading companies, especially in sectors with a strong state influence, deserve further research. A recent FOI study has described the energy political powerbase that consists of companies registered outside Russia, in Switzerland and in Cyprus for example. Examples of this kind of company in the energy sector are Nord Stream, RusUkrEnergo and companies in the Gunvor group. These companies are very important actors on the energy market, but largely of a secretive nature.⁴⁶

The Gunvor group, based in Geneva, is of particular interest both because it makes a large profit and because it is believed to serve the personal economic interests of Putin. The group has become the world's third biggest oil trader after Glencore and Vitol. The company was founded in 1997 as an equal joint venture between the Russian Gennady Timchenko, said to be a close friend of Putin, and the Swede, Torbjörn Törnqvist. The turnover was thought to have increased from \$30 billion in 2006 up to \$43 billion in 2007. The main trading partners in Russia are two state-controlled companies, Rosneft and Gazpromneft, but also the private-owned TNK-BP.⁴⁷ By the beginning of 2008, Gunvor had become the largest buyer of oil from Rosneft.⁴⁸ The company has its strongest position in northern Europe, especially in the oil trade over the Baltic Sea from the Primorsk oil terminal. In an interview with the Reuters news agency, Törnqvist denied that Gunvor has used political connections in an unfair way, but admitted: 'We don't

⁴⁵ FBK-Legal (2007), comments by Alexander Sotov, published 14 May 2007, last accessed 17 March 2008, Internet: www.fbk-pravo.ru/eng/news.asp?id=2818&print=true; Kommersant (2008), 'Dokapyvayetsa spetskorrespondent otdela biznesa Denis Rebrov', published 26 February 2008, last accessed 26 February 2008, Internet: www.kommersant.ru/doc.aspx?docsid=856601. The use of internal offshore zones (Mordoviya, Kalmykiya and Chukotka) by energy companies to dodge taxes has been described in Larsson, Robert L. (2006), *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, (Stockholm: The Swedish Defence Research Agency (FOI), Scientific Report FOI-R—1934--SE), p. 82.

⁴⁶ Larsson, Robert L. (2008), p. 39-40.

⁴⁷ Reuters (2007), 'Secretive Russian Gunvor becomes number 3 oil trader', last accessed 5 March 2008, Internet: <http://uk.reuters.com/article/oilRpt/idUKL3180443520071031?pageNumber=1&virtualBrandChannel=0>; Reuters (2007), 'Gunvor wins more Russian oil with Surgut tender', published 21 December 2007, last accessed 5 March 2008, Internet: <http://www.reuters.com/article/rbssEnergyNews/idUSL2159162720071221?pageNumber=2&virtualBrandChannel=0>.

⁴⁸ Kommersant (2008), 'Gunvor snova stal krupneyshim pokupatelem nefiti Rosneft', published 6 March 2008, last accessed 6 March 2008, Internet: www.kommersant.ru/doc.aspx?DocsID=864046.

deny we have excellent contacts.’ However, Törnqvist also claimed that ‘to involve Mr Putin and any of his staff in this dialogue is speculation’.⁴⁹

In November 2007 the political analyst Stanislav Belkovsky claimed that Putin’s personal fortune is handled by the Gunvor group. Much has been written about this in the Russian and foreign press.⁵⁰ However it was not the first time such accusations were launched. One of the presidential candidates in the 2004 presidential election, Ivan Rybkin, tried to use such allegations for political purposes. Soon after this he mysteriously disappeared. Although he returned after a couple of days, he withdrew his candidacy for the presidential post.⁵¹

It is of course very difficult to state anything with absolute certainty about Putin’s alleged involvement in this type of business and it is likewise hard to prove a connection between the compromising material (*kompromat*) on Putin and the disappearance of Rybkin shortly before the election. Irrespective of this, *kompromat* of a similar type is, and will probably will continue to be, used in the Russian power struggle. Not even Putin or Medvedev are totally immune from this threat. At the same time, one should also note that such *kompromat* has so far been of little use in a broader political context, mainly because the public political scene in Russia is not the place for open confrontation. The essential thing in a clan conflict is thus not whether the *kompromat* is true or not, although it might very well be since it is often not difficult to find some illegal activity that could be used. The essential point is instead how the legal instances can be controlled and/or managed to take a certain decision.

⁴⁹ Reuters (2007), ‘Secretive Russian Gunvor becomes number 3 oil trader, last accessed 5 March 2008, Internet: <http://uk.reuters.com/article/oilRpt/idUKL3180443520071031?pageNumber=1&virtualBrandChannel=0>.

⁵⁰ A few articles that could serve as an introduction to this subject: The Guardian (2007), ‘Putin, the Kremlin power struggle and the \$40bn fortune’ published 21 December 2007, last accessed , Internet: www.guardian.co.uk/russia/article/0,2230924,00.html?gusrc=rss&feed=12#article_continue; Newsru.com (2007), ‘Milliarder Timchenko, drug Putina stal odinim iz krupneyshikh v mire prodavtsov nefti’, published 1 November 2007, last accessed 17 March 2008, Internet: <http://www.newsru.com/arch/finance/01nov2007/gunvor.html>; Newsru.com (2007), ‘Estonskaya firma zarabatyvayet neftedollary dlya pervikh lits Kremlya i ikh favoritov’, published 14 December 2007, last accessed 17 March 2008, Internet: <http://www.newsru.com/russia/14dec2005/kreml.html>; Newsru.com (2007), ‘Neftyanaya kompaniya Gunvor otritsayet, chto yeye vladelets - Putin’, published 24 December 2007, last accessed 17 March 2008, Internet: www.newsru.com/arch/russia/24dec2007/oproverg.html; Novaya Gazeta (2005), ‘Semya-2’, No. 85 published 14 November 2005, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2005/85/00.html>; Novaya Gazeta (2007), ‘V koltse kontsov’, No. 91 published 29 November 2007, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2007/91/08.html>.

⁵¹ Larsson, Robert L. (2006), pp.121-122.

Kompromat aimed at the powerful deputy head of the Presidential Administration, Igor Sechin, and other high-ranking individuals was delivered under somewhat unclear circumstances by Oleg Shvartsman, unknown to the larger public, on 30 November 2007.⁵² Shvartsman, claiming to be acting as middleman in the interest of Sechin and others, gave numerous rather horrifying details about the mafia-style business methods he claimed to be using. It is difficult to evaluate this information, but he probably had some serious backing from structures rivalling Sechin. It seems extremely unlikely that he would be informing a journalist about all these compromising details without having any ulterior motive. In any case, Shvartsman ran as a candidate for the quasi-opposition, Putin-loyal party Civic Force in the Duma election of 2007.⁵³ He also sat in the Party Council, but was excluded on the initiative of the Party Leader Mikhail Barshchevsky on the same day the article was published, not for his allegations, but because of the personal view on business activity that he expressed.⁵⁴

Whether Shvartsman's information is true or not, it seems clear that the use of intermediary companies, often registered offshore, is a central feature of how the Russian power elite exercises personal control over key sectors of the economy. The intermediaries are used for different purposes: profit-skimming, to take over competitors or simply to mask the personal business interests of high-ranking persons.⁵⁵

One offshore trading company used by the state-controlled oil company Rosneft is R-Trade Limited, registered in Jersey. According to court records, Rosneft has been selling oil to R-Trade, at least between May 2004 and November 2006. The owners of R-Trade are said to be the top managers of Rosneft, among them the above-mentioned Igor Sechin. Nothing is said about R-Trade in the official accounts of Rosneft and no questions on this issue have been answered by Rosneft. However, R-Trade was involved in deals approved in August 2004 by the shareholders of Rosneft's subsidiary OAO Rosneft-Purneftegaz to sell oil to the large trading companies Gunvor, Petraco Oil Company and Vitol in 2004.⁵⁶

⁵² Kommersant (2007), 'Partiyu dlya nas olitsetvoryayet silovoy blok, kotoryy vozglavlyayet Igor Ivanovich Sechin', published 30 November 2007, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=831089>.

⁵³ Heading one of the Party's two regional lists in Voronezh. Civic Union (2007), List of Duma candidates, last accessed 17 March 2008, Internet: http://www.gr-sila.ru/document_id3340.html. The nature of Civic Force as a party is treated in Holmberg, Carl (2008), p. 36-37, 43-44.

⁵⁴ Civic Force (2007), Statement on Oleg Shvartsman, published 30 November 2007, last accessed 17 March 2008, Internet: http://www.gr-sila.ru/document_id3448.html.

⁵⁵ Larsson, Robert L. (2008), p. 38.

⁵⁶ PBK Daily (2007), 'Taynyy treyder Rosnefti', published 10 December 2007, last accessed 5 March 2008, Internet: www.rbcdaily.ru/2007/12/10/tek/307819.

Offshore companies are also worth paying attention to when analysing foreign investments in Russia. Foreign investments from Cyprus or other tax havens is partly profits from Russian exports that are being returned to the country,⁵⁷ but Cyprus is also used by 'real' foreign investors to avoid paying Russian taxes.⁵⁸ Cyprus has for many years been one of the most important offshore destinations for Russian capital. The Soviet Union signed a double taxation treaty with Cyprus already in 1982, which permitted capital from the Soviet and later Russia to avoid being taxed at home and thus benefit from the low taxes in Cyprus.⁵⁹

The offshore companies are often said to be connected to organised crime groups. One such connection was discussed in conjunction with the arrest on 23 January 2008 of the well-known criminal Semen Mogilevich, who is widely believed to be involved in the business of the two companies RosUkrEnergo and EuralTransGas, which function as middlemen in gas exports to Ukraine from Russia and Turkmenistan. The arrest of Mogilevich and a business partner, Vladimir Nekrasov, is most likely linked to the struggle for control over gas exports to Ukraine. However, the accusations, at least initially, concerned unpaid taxes by Nekrasov. This may seem confusing at first but it could be a way of doing away with Mogilevich without having to investigate his murky business links. Mogilevich is also wanted by the FBI and the Ukrainian authorities.⁶⁰

A member of the Ukrainian parliament, who earlier led a regional department of the Ministry of the Interior, Gennady Moskal, commented on the arrest of Mogilevich: 'As a rule, people like Mister Mogilevich are not arrested for committing crime. A redistribution of property is rather going on in the Russian Federation.'⁶¹

If this is true, this 'redistribution of property' concerning vital interests of Gazprom might very well have been actualised by the fact that the chairman of the board of directors, Dmitry Medvedev, will most likely leave this post when he becomes President. However, there are different interpretations on why

⁵⁷ According to *The Economist*, tax havens are the major investors in Russia. 'Smoke and Mirrors', published 28 February 2008, last accessed 5 March 2008, Internet: http://www.economist.com/world/europe/displaystory.cfm?story_id=10765120.

⁵⁸ Lowtax.net, 'Russia and Offshore', last accessed 19 March 2008, Internet: http://www.lowtax.net/lowtax/html/offon/russia/rus_offshore.html

⁵⁹ IT Plus Consulting, 'Mezhdunarodnyye nalogovyye soglasheniya Rossii', last accessed 19 March 2008, Internet: <http://www.itplus.ru/consulting/info/detail.htm?id=10248297@cmsArticle>

⁶⁰ Novaya Gazeta (2008), 'Pervaya Spetsoperatsiya epokhi Dmitriya Medvedeva', No. 6, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2008/06/00.html>.

⁶¹ Newsru.com (2007), 'Ot Arbat Pretizha zapakhlo tranzitnym gazom Mogilevichs. Zaderzhannogo avtoriteta mogut prizhat ne za parfyum', published 25 January 2008, last accessed Internet: www.newsru.com/arch/russia/25jan2008/arat_new.html.

Mogilevich was arrested. Some, like the former general prosecutor Yury Skuratov, see the arrest as 'a business conflict', while others note the possible impact on Medvedev's position that a legal case could have if it reveals murky details on the gas trade from Turkmenistan via Russia to Ukraine.⁶²

A businessman [Mogilevich] lived in Moscow almost without hiding, despite the fact that he was internationally wanted, often visiting the café in the Centre for International Trade and was suddenly arrested by special forces. Experts exclude the randomness of such an arrest and suggest different answers.

A few more pieces of information on Gazprom's intermediaries in the gas exports to Ukraine illustrate the political significance that these offshore companies can have. EuralTransGas, Hungarian-registered and with a stock capital of a mere \$12 000, was contracted by Gazprom to act as middleman in the export of gas from Turkmenistan via Russia from December 2002. The company's net profit in 2003 was \$767 million and it theoretically caused Russia lost tax revenues worth \$184 million.⁶³

As a consequence of the Russian-Ukrainian gas conflict in 2005, EuralTransGas was succeeded by RosUkrEnergo, a company registered in Switzerland. RosUkrEnergo has since been responsible for the delivery of gas from Russia and Turkmenistan to Ukraine. The company was set up and registered in Zug in Switzerland by Gazprom, partly through subsidiaries. The company is accused of having links to criminal structures. At any case the company has had at least political backing from the Russian and Ukrainian leadership, given the strategic significance of the gas trade.⁶⁴ Ukrainian President Viktor Yushchenko has been defending the deal with RosUkrEnergo, while Prime Minister Yuliya Timoshenko has been one of its harshest critics, accusing it of being 'linked to international criminals'.⁶⁵

Negotiations between President Putin and President Yushchenko were held in Moscow on 12-13 February 2008 to discuss Gazprom's threat to stop the

⁶² Novaya Gazeta (2008), 'Razvodnoy klyuchik', No. 7 2008, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2008/07/00.html>.

⁶³ Novaya Gazeta (2008), 'Pervaya Spetsoperatsiya epokhi Dmitriya Medvedeva', No. 6, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2008/06/00.html>.; Novaya Gazeta (2008), 'Razvodnoy klyuchik', No. 7 2008, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2008/07/00.html>.; Larsson, Robert L. (2006), p. 149-150.

⁶⁴ Larsson, Robert L. (2006), pp. 204, 216-217.

⁶⁵ Larsson, Robert L. (2006), pp. 208-209; Kommersant (2007), 'Yuliya Timochenko ne khochet platit za Viktora Yushchenko', published 27 February 2008, last accessed 27 February 2008, Internet: www.kommersant.ru/doc.aspx?DocsID=857105.

delivery of gas to Ukraine due to delays in payment and other problems with the Ukrainian partner Naftogaz Ukrainy.⁶⁶ Yushchenko seemed to be reluctant to discuss the gas issue with Putin, 'As President, I would very much like not to be occupied with gas issues' and adding, possibly with irony, 'and I am sure [it is the same for] Vladimir Vladimirovich [Putin]'.⁶⁷

3.2.3 Foreign trade as common denominator for the power elite

As a consequence of the approach adopted in this study, it is possible to point out a few things about the personnel composition of the power elite in the Putin era. The struggle for control over key economic sectors as central for the power struggle in Russia was discussed earlier in this report. It is therefore logical to assume that the personal backgrounds of members of the power elite would reflect this and when these are analysed, it is striking that so many in one way or another have a background linked to foreign trade. Many analyses tend to focus only on the KGB background, but that is in fact an oversimplification that risks diverting attention away from issues of an economic power struggle and instead focusing on an assumed KGB conspiracy to take power in Russia. Although there are many people in the power elite with a KGB background, they do not differ from those with another background in terms of policy preferences.⁶⁸ Nor did Putin's coming to power in 2000 represent a dramatic shift in policy towards more security concerns.⁶⁹ There is thus no obvious political difference between the former security KGB employees and those with another background and as a consequence no political struggle between them. At the same time it is important to bear in mind that it is not always easy to determine who has a KGB background and who has not. The dividing lines are of another type, and since they are not determined by different political ideologies, they are best understood as clan struggles.

Almost all key economic sectors in Russia, at least from the late Soviet time until now, have been very orientated towards exports. This concerns natural resources (primarily energy resources and metals) but also the Military Industrial

⁶⁶ Rossiyskaya Gazeta (2008), 'Gazo-provody', published 12 February 2008, last accessed 17 March 2008, Internet: <http://www.rg.ru/2008/02/12/gaz.html>.

⁶⁷ Rossiyskaya Gazeta (2008), 'Dneprogaz', published 13 February 2008, last accessed 27 February 2008, Internet: <http://www.rg.ru/2008/02/13/gaz.html>.

⁶⁸ Bacon, Edwin, Renz Bettina, Cooper, Julian (2006), '*Securitising Russia – The Domestic Policy of Putin*', pp. 177-178.

⁶⁹ Bacon, Edwin, Renz Bettina, Cooper, Julian (2006), 'pp. 181-182

Complex.⁷⁰ Foreign trade had a special position in the closed economic system of the Soviet Union and the foreign intelligence personnel of the KGB were deeply involved in this. As a Russian journalist put it: 'Authorities handling foreign contacts in the Soviet Union were unofficial branches of the Soviet special services'.⁷¹ When the opportunity was given, many former foreign intelligence people, especially younger ones, went to work in 'Russian banks, firms and joint ventures, or were representatives of foreign companies selling Russian metal, oil, diamonds and military technology'.⁷² However income from the selling of crude oil, for example, was also important to the foreign intelligence services because it could be used to finance intelligence activity (in 'Scandinavian countries', for instance).⁷³

The role of the foreign intelligence personnel in the economy after the failed putsch in 1991 has been described by the former foreign intelligence operative Alexander Kouzminov:⁷⁴

Part of the remaining intelligence establishment was quickly moved under new 'commercial' cover but remained working in the Service. By taking that step the Foreign Intelligence Service widened the sphere of its control and influence inside Russia as well as in target countries. In the latter, commercial cover gave its officers the opportunity for wider and deeper access to banks, companies, firms, etc. And inside Russia it broadened its access and influence through placing its people in vital posts within the economy and the government. The Russian intelligence community worked to make progress for itself, installing its people into the new economic structures and political organisations. That way it could take advantage of developing situations within the country. It is easiest to do that if one controls both the financial resources and the strategic raw material; who controls them controls the country.

There is nothing mysterious about the presence of foreign intelligence staff in foreign trade. It concern the strategic economic interests of the State and after the fall of the Soviet Union, the intelligence personnel were among the most

⁷⁰ Russia is together with the USA the world's largest weapon exporter, and the most export-dependent country. SIPRI Yearbook 2007, last accessed 17 March 2008, Internet: <http://yearbook2007.sipri.org/chap10>; Moscow Defense Brief No. 4 2007, published February 2008, last accessed 5 March 2008, Internet: http://mdb.cast.ru/mdb/4-2007/item_3/article_2/.

⁷¹ Gazeta.ru (2007), 'Premyer nevidimogo fronta', published 8 October 2007, last accessed 17 March 2008, Internet, http://www.gazeta.ru/politics/2007/10/08_a_2225069.shtml.

⁷² Kouzminov, Alexander (2005), p. 132-133

⁷³ Kouzminov, Alexander (2005), p. 137-138; See also Sherr, James (2008), p. 26.

⁷⁴ Kouzminov, Alexander (2005), p. 134-135

competent people in this economic field. It is thus not necessary to believe in any conspiracy. Since they had experience (and foreign contacts) in the most profitable economic spheres they were naturally needed by others in the power elite and some of them, like Putin and his associates, could eventually themselves rise to the ultimate power. Putin was hardly picked at random to become the successor to Yeltsin or just because he, a former KGB man, was thought to be loyal to his master, but most likely also because he had been involved in the struggle for economic power in Russia.

The growth of corruption in the late Soviet period was stimulated by the creation of joint ventures and 'favourable conditions for illegal capital export'. The KGB was also involved in advanced financial operations to finance the 'shadow activity' of the Communist party, including the creation of banks. This made them useful for Boris Yeltsin in 1991.⁷⁵

It is interesting to note that among those growing powerful and rich during the 1990s, i.e. before Putin came to power, were several individuals with a connection to foreign trade. One example is Petr Aven, Minister for Foreign Economic Relations in Yegor Gaydar's reform government 1991-1992,⁷⁶ who shortly afterwards became one of the richest men in Russia.

The licensing of exports is an important tool for those who want to control foreign trade. Putin, like some of his foreign intelligence colleagues with high posts in Russia today, moved on from the KGB's first directorate (foreign intelligence) to work with licensing foreign trade in Saint Petersburg in the period 1990-1996.⁷⁷ There were huge sums available for those working with licences and quotas on export of metals and energy resources and, not so surprisingly, this was the most corrupt spheres of the Russian economy in 2000.⁷⁸ The foreign intelligence people, including Putin, met other KGB/FSB people, but also lawyers such as Medvedev, in the regional government in Saint Petersburg,⁷⁹ a city through which a significant part of Russian exports passed. This group of people have gradually broadened their power basis.

⁷⁵ Cheloukhine, Serguei, King, Joseph (2007), p. 110.

⁷⁶ Alfa bank, last accessed 5 March 2008, Internet: <http://www.alfabank.com/president/>.

⁷⁷ Novaya Gazeta (2000), 'Kolbasa dlya Pitera. Kak V. Putin pytalsya spasti svoj gorod ot goloda', published 13 March 2000, No. 18, last accessed 17 March 2008, Internet: <http://www.novayagazeta.ru/data/2000/18/11.html>.

⁷⁸ Cheloukhine, Serguei, King, Joseph (2007), p. 115

⁷⁹ Bacon, Edwin, Renz Bettina, Cooper, Julian (2006), p. 33.

What is most worth remembering about the power elite in the Putin era, of which Medvedev is part, is not that many of them have a background in the KGB, because many do not, but the fact that these people have been engaged in a highly profitable business for a long time. This does not automatically mean that they are all in this business for the sake of personal profit, but the struggle for control over the strategic economic sectors is a central part of the power struggle in Russia, and thus an important precondition for how Medvedev can act as President and Putin as Prime Minister.

4 Conclusions: Preconditions for ruling Russia after Putin's presidency

It seems that the struggle for power over the bureaucracy and key economic sectors explains a lot about Russian politics and decision-making under Putin. It also adds understanding about the dynamics of a system that is not as stable as is often claimed. However this does not mean that it is not worth listening to official explanations or that there is a total lack of coherent strategy in most political fields. The implication of what has been discussed in this report is rather that coherent policy suffers due to the struggle for power within the elite. And that may be critical in decisions with strategic and long-term implications.

The majority of the Russian population is not involved in the struggle for power but has to face its consequences in terms of an inefficient state bureaucracy that is not able to solve the most urgent problems. This does not mean that there is a lack of understanding for these issues among members of the power elite, only that their internal struggle for power severely hampers the solving of them.

All this naturally also has implications for the world outside Russia, partly because instability in Russia affects general stability in the world, but also due to the dependency on imports from Russia, mainly of natural resources. At the same time it is important to bear in mind that the trade in itself has the potential for bringing stability by linking Russia to the outside world.

The power struggle in Russia is not a public struggle for different political goals, but to a large extent a hidden struggle between clans for control and influence over the bureaucratic system and key economic sectors. These clans can be described as corruption networks. The strong presence of people with a background in the security services within the Russian power elite has been widely discussed, but what is not discussed equally frequently is their often long-term involvement in predominately export-orientated sectors of the economy. The foreign trade connection is a consequence of at least two things: 1) Russia's most profitable economic sectors are very export-orientated; and 2) the security service background, especially in the foreign intelligence field, meant that these persons were involved in foreign trade and other secret and lucrative financial activity already in late Soviet time and thus had a good power base to build on when opportunities grew during the 1990s.

The clan struggles create a situation where state authorities are not primarily fulfilling their official tasks and as a consequence are very weak institutions, heavily dependent on the clan-affiliated individuals who are heading them, formally or informally. Administrative reforms and appointments, including those to more important posts, must be seen in this context. It seems clear that many have been used by the President to balance the clans, which normally means support for the weaker clan. Naturally this means that the fulfilment of political goals suffers. In an open political debate, the rhetoric of leading Russian politicians would be undermined by scrutiny of the decisions actually taken. This is an obvious but still fundamental reason for the anti-democratic development in Russia today.

A relevant question is what significance the clan struggle and attempts to balance the clans have in comparison with other driving forces in explaining how Russia is ruled. This report indicates that the clan issue has a significant impact. The General Prosecutor's Office, for instance, has in reality been divided between two clans, legal cases are opened and closed under pressure from clans and the anti-narcotics authority monitors and investigates leading individuals in the FSB in non-drug-related criminal investigations.

The struggle for economic control has two important elements. The first is to gain access to a flow of money and, given the nature of corruption in Russia, this means having their share of the flow. In this context state interests seem to be used as a pretext to limit foreign and domestic competition.

Another part of the struggle is to 'privatise' profits from state-controlled sectors or public property. Profits from key economic sectors, including some of the most important state-controlled companies, are privatised via offshore companies used in the trade. Another example is the State Corporations, which enable the transfer of public (state) property to structures led by a number of individuals in the power elite. Both these strategies affect vital sectors of the Russian economy.

No matter whether Putin continues to be at the top of the power hierarchy or whether Medvedev, quickly or slowly, takes his place, the aspects of Russian politics and power struggle described in this report will continue to be crucial for a proper understanding of it. The individuals involved will undoubtedly change over time, especially when, as is generally believed, Medvedev starts to form and promote his own group of people. Naturally the mechanisms themselves will also change, but probably more slowly, since the current political system does not allow independent actors who might have speeded up the process.

This report does not argue that the struggle between clans for control over the economy and the bureaucracy is the only relevant aspect for studying Russia or that the current system is static. However, it argues that these aspects must be taken into account when analysing both the economy and the politics of Russia.

5 Appendix 1: Clan wars 2000-2008

The clan war between the Sechin clan and the Cherkesov clan is described below with a selection of important events in chronological order, from October 2000 until January 2008. These events are naturally only part of the larger picture. The selection was based on events covered in the Russian printed media but many turns in the clan war are not visible to the outside observer. The purpose of the description below is to point out a number of events that are linked together by a clan conflict and which are most likely typical of how the bureaucratic system is used in the struggle for power in Russia.

Cherkesov clan	Sechin clan	External intervention
20 Oct 2000: The Investigative Committee of the Ministry of Interior (MVD) starts to investigate the smuggling of furniture to the stores Tri Kita and Grand. Investigations are led by Pavel Zaytsev. ⁸⁰		
22 Nov 2000: Yevgeny Zhukov, aide to FSB deputy director, Yury Zaostovtsev, is accused of being involved in the affair. ⁸¹		
	22 Nov 2000: As soon as FSB personnel are accused, the investigation is transferred to the General Prosecutor Vladimir Ustinov. ⁸²	
	7 May 2001: The investigation is stopped by investigator Popov, allegedly due to lack of evidence. Three deputy prosecutors try to	

⁸⁰ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet:

<http://www.novayagazeta.ru/data/2007/78/00.html>; Newsru.com (2002), 'Sledovatel po mebelnomu delu ne priznayet sebya vinovnym', published 4 September 2002, last accessed 20 February 2008, Internet: <http://www.newsru.com/russia/04Sep2002/zaicev2.html>.

⁸¹ Novaya Gazeta (2006), 'Generaly Shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2008, <http://www.novayagazeta.ru/data/2006/75/13.html>.

⁸² Novaya Gazeta (2006), 'Generaly Shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2008, <http://www.novayagazeta.ru/data/2006/75/13.html>.

	convince members of the Duma that it was the right decision. ⁸³	
	Dec 2001: A case is initiated against Zaytsev for having exceeded his authority while investigating the Tri Kita affair. ⁸⁴	
		Several members of the Duma demand the reopening of the Tri Kita investigation, especially Yury Shchekochikhin, who covered the investigation in the journal Novaya Gazeta. ⁸⁵
		Mar 2002: An inquiry in the Duma and the intervention of Putin result in the reopening of the Tri Kita investigation. ⁸⁶
		Apr 2002: Vladimir Loskutov (an old university friend of Putin), deputy head of the Prosecutor's Office in

⁸³ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>.

⁸⁴ Newsru.com (2002), 'Obvineniye trebuyet uslovnogo nakazaniya dlya sledovatelya po mebelnomu delo', published 28 August 2002, last accessed 17 March 2007, <http://www.newsru.com/russia/28Aug2002/mebeldelo.html>.

⁸⁵ Novaya Gazeta (2002), 'Kto i za skolko mozhet zakryt ugovnoye delo', No. 12 2002, last accessed 9 April 2008, Internet: <http://www.novayagazeta.ru/data/2002/12/07.html>. Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>; Newsru.com (2007), 'Novaya Gazeta prosit Sledstvennyy Komitet razobratsya v obstoyatelstvakh smerti kollegi Yuriya Shchekochikhina', last accessed 18 February 2007, Internet: www.newsru.com/arch/russia/04sep2007/zapros.html.

⁸⁶ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>; Newsru.com (2002), 'Sledovatel po mebelnomu delu ne priznayet sebya vinovnym', published 4 September 2002, last accessed 20 February 2008, Internet: <http://www.newsru.com/russia/04Sep2002/zaicev2.html>.

		Saint Petersburg, takes over the investigation from General Prosecutor Vladimir Ustinov. ⁸⁷
	28 May 2003: The businessman (major importer of furniture) Sergey Pereverzev, who was an opponent to Sergey Zuyev (controlling the furniture stores Tri Kita and Grand), is shot. Pereverzev cooperated with the Customs Service, causing problems for Zuyev. ⁸⁸	
		1 Jul 2003: An anti-narcotic authority, first named Gosnarkokontrol but later changing its name to FSKN (Federal Service for Control of Narcotics) is established on the basis of the Federal tax police, abolished at the same time. ⁸⁹
	3 Jul 2003: MP and journalist Yury Shchekochikhin, who has been writing about the Tri Kita-case, dies under mysterious circumstances,	

⁸⁷ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>.

⁸⁸ Gazeta (2003), 'Nichego izmenit nelzya', published 30 May 2003, last accessed 17 March 2008, Internet: <http://www.gzt.ru/incident/2003/05/30/044000.html>; Komsomolskaya Pravda (2003), 'Rasstrel v hospitale Burdenko', published 28 May 2003, last accessed 17 March 2008, Internet: <http://www.kp.ru/daily/23040/3984>.

⁸⁹ Presidential Administration (2003), Ukaz Prezidenta from 11 March 2003, last accessed 17 March 2008, Internet, <http://document.kremlin.ru/doc.asp?ID=16650&PSC=1&PT=3&Page=1>.

⁹⁰ Yavlinsky, Grigory (2003), 'Umer Yury Shekochikhin', published 3 July 2003, last accessed 17 March 2008, Internet: <http://www.yabloko.ru/Press/Docs/2003/0703Yabl-Schek.html>; Newsru.com (2007), 'Novaya Gazeta prosit Sledstvennyy Komitet razobratsya v obstoyatelstvakh

	possibly a poison murder. ⁹⁰	
	10 Aug 2004: The Supreme court verifies the verdict of the Moscow city court, which sentenced Pavel Zaytsev to 2 years in prison. ⁹¹	
28 Dec 2004: Viktor Cherkessov writes an article for the newspaper <i>Komsomolskaya Pravda</i> and calls for unification among the rivalling 'chekists'. Among others he accuses the former journalist and MP for United Russia, Aleksandr Khinshteyn of waging a war on chekists. ⁹²		
Feb 2005: A consignment of Chinese goods (furniture) in Nakhodka, aimed for the FSB, is confiscated. ⁹³		
		The Chinese Embassy in Russia protests against the confiscation. The Chinese refer to a list of companies that were given permission by the Russian government to import (in some kind of

smerti kollegi Yuriya Shchekochikhina', last accessed 18 February 2007, Internet: www.newsru.com/arch/russia/04sep2007/zapros.html.

⁹¹ Newsru.com (2004), 'Verkhovnyy sud ostavil v sile prigovor sledovatelju po delu Trekh kitov i Granda', published 10 August 2004, last accessed 5 March 2008, Internet: <http://www.newsru.com/russia/10aug2004/sud.html>.

⁹² Komsomolskaya Pravda (2004), Viktor Cherkessov, director Federalnoy sluzhby RF po kontrolyu za oborotom narkotikov: Moda na KGB?', published 28 December 2004, last accessed 17 March 2008, Internet: <http://www.kp.ru/daily/23433/35559/>.

⁹³ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>; Newsru.com (2007), 'V otnoshenii sledovatelya po delu o kitayskoy kontrabande Vadima Bagaturii возбуждено уголовное дело', published 24 December 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/24dec2007/kontrabanda.html>.

		semi-legal way) from China. ⁹⁴
1 Apr 2005: The Investigative Committee (SK) of the MVD starts to investigate the smuggling affair named 'the Chinese Connection' based on information from the Department of Economic Security within the MVD. The smuggling (worth at least tens of millions of dollars but the whole business could involve one billion dollars of profit) involved FSB personnel at the central apparatus of the FSB (the Directorate for Material-Technical Supply of the FSB) and the Federal Border Service of the FSB. The governor of Primorsk is said to have been involved, as well as the Customs Service in the same region. ⁹⁵ One senator and a regional MP in that region escaped abroad due to the affair. ⁹⁶		
	7 Apr 2005: First deputy General Prosecutor demands that the investigation material on the Chinese Connection is transferred to the General Prosecutor, who then transfers it to the FSB.	

⁹⁴ Novaya Gazeta (2006), 'Generaly shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2007, Internet: <http://www.novayagazeta.ru/data/2006/75/13.html>.

⁹⁵ Novaya Gazeta (2006), 'Generaly shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2007, Internet: <http://www.novayagazeta.ru/data/2006/75/13.html>.

⁹⁶ Kommersant (2007), 'Sledovatelya vyveli iz kontrabandnogo dela', published 24 December 2007, last accessed 20 February 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=839227>.

	The investigation no longer moves forward. ⁹⁷	
		Spring of 2006: The Customs service is 'purged' and Putin-loyal Andrey Belyanov installed. ⁹⁸
		Jun 2006: General Prosecutor Ustinov is dismissed but becomes Minister of Justice by replacing Yuri Chayka, who in his turn takes Ustinov's place. Chayka is considered to be close to Cherkesov. ⁹⁹
Jun 2006: The General Prosecutor demands the first arrest in the Tri Kita case. ¹⁰⁰ Five people are arrested, including the businessman Sergey Zuyev (allegedly controlling the furniture companies involved, Grand and Tri Kita). Three of them start to cooperate with the General Prosecutor. ¹⁰¹		
		Sep 2006: The Chinese Connection investigation is

⁹⁷ Novaya Gazeta (2006), 'General'y shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2007, Internet: <http://www.novayagazeta.ru/data/2006/75/13.html>.

⁹⁸ Johnson's Russia List (2007), 'Settling scores in the leadership of the Russian secret service' and 'Hunting scenes in Moscow', No. 214, article from www.russia-intelligence.fr.

⁹⁹ Johnson's Russia List (2007), 'Settling scores in the leadership of the Russian secret service' and 'Hunting scenes in Moscow', No. 214, article from www.russia-intelligence.fr.

¹⁰⁰ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>.

¹⁰¹ Novaya Gazeta (2006), 'General'y shirokogo potrebleniya', No. 75, published 2 October 2006, last accessed 17 March 2007, Internet: <http://www.novayagazeta.ru/data/2006/75/13.html>; Newsru.com (2007), 'Gromkoye delo o kontrabande mebeli dlya Granda i Trekh kitov napravleno v sud', published 28 December 2007, last accessed 18 March 2008, Internet: www.newsru.com/arch/russia/28dec2007/grand.html.

		transferred from the FSB back to the General Prosecutor. Three FSB deputies are dismissed by Putin at the same time, which he partly motivates by the Chinese Connection investigation. ¹⁰²
		Struggle within the MVD between head of the Department for Economic Security, Sergey Meshcheryakov (ally of Sechin) and deputy Minister Novikov (ally of Viktor Zolotov, head of the President's Security Service SBP). Both are fired but get new posts, without much influence. Details unknown. ¹⁰³
		Autumn 2006: Struggle begins within the General Prosecutor's office between General Prosecutor Yury Chayka and his deputy Viktor Grin on one side and deputy General Prosecutor Aleksandr Bastrykin on the other side. ¹⁰⁴
Oct 2006: The FSKN becomes involved in the		

¹⁰² Newsru.com (2007), 'V otnoshenii sledovatelya po delu o kitayskoy kontrabande Vadima Bagaturii возбуждено уголовное дело', published 24 December 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/24dec2007/kontrabanda.html>.

¹⁰³ Novaya Gazeta (2007), 'Bolshoy brat slyshit tebya' and 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 26 February 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/00.html>.

¹⁰⁴ Kommersant (2007), 'Sledstvenno-nadzornoye protivostoyaniye', published 16 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=815453>.

investigation of Tri Kita and the Chinese connection. ¹⁰⁵ Zuyev, arrested in Jun 2006, claims he only became aware of the involvement of the FSKN in Oct 2007. ¹⁰⁶		
		Jun 2007: Putin signs the law on the Investigative Committee (SK) lobbied for by Sechin, formally under the General Prosecutor, but taking over most of its powers and reporting directly to the President. It continues the investigations on several high-profile cases including the Tri Kita affair ¹⁰⁷
	Summer 2007: MP Nikolay Kupyranovich (elected for the Liberal-Democratic party, but independent MP of the 2003-2007 Duma) asks General Prosecutor to investigate ties between the famous mafia leader Kumarin (Vladimir Barsukov) and Viktor Zolotov (Cherkesov ally). ¹⁰⁸	

¹⁰⁵ Bernstein, Jonas, 'St. Petersburg poisonings: Part of Siloviki factional fight?', *Eurasia Daily Monitor*, 2 November 2007, Volume 4, Issue 204. Last accessed 26 March 2008, Internet: http://www.jamestown.org/publications_details.php?volume_id=420&issue_id=4284&article_id=2372557.

¹⁰⁶ Kommersant (2007), 'Iz-pod "dela Gosnarkokontrolya" vybivayut "Trekh kitov"', published 12 October 2007, last accessed 9 April 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=814056>.

¹⁰⁷ Newsru.com (2007), 'Sledstvennyy komitet pri Genprokurature RF nachinayet rabotu', published 7 September 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/07sep2007/komitet.html>.

¹⁰⁸ Johnson's Russia List (2007), 'Settling scores in the leadership of the Russian secret service' and 'Hunting scenes in Moscow', No. 214, article from www.russia-intelligence.fr.

	Jun 2007: Mikhail Yanykin at the Department for Special Technical Operations at Moscow police is suspected of illegal wiretapping of politicians and businesses on the order of their competitors. ¹⁰⁹ Two businessmen and former employees of the Ministry of Defence are later arrested, accused of giving bribes to Yanykin. ¹¹⁰	
		Summer 2007: Two of Cherkesov's allies are promoted by Putin. Sergey Derevyanko is appointed deputy head of the Department for Internal Security of the MVD and Yury Shalakov first deputy head of the Department for Economic Security at the MVD. ¹¹¹
	Aug 2007: Arrest of Vladimir Barsukov, alias Kumarin (leader of the Tambov criminal group in Saint Petersburg). The arrest is probably directed against Viktor Zolotov (head of the President's Security Service, SBP) and Yevgeny Murov (head of the Federal Protection service, FSO) members of the Cherkesov-clan. ¹¹²	
		7 Sep 2007: SK (Investigative Committee) starts its

¹⁰⁹ Kommersant (2007), 'Po korrupsionnomu delu arestovany chetyre byvshikh i deystvuyushchikh sotrudnika FSKN', published 22 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=817476>.

¹¹⁰ Kommersant (2007), 'Po korrupsionnomu delu arestovany chetyre byvshikh i deystvuyushchikh sotrudnika FSKN', published 22 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=817476>.

¹¹¹ Novaya Gazeta (2007), 'Skandal v prezidentskom gareme', No. 78, published 11 October 2007, last accessed 18 March 2008, Internet: <http://www.novayagazeta.ru/data/2007/78/01.html>.

¹¹² Johnson's Russia List (2007), 'Settling scores in the leadership of the Russian secret service', No. 214, article from www.russia-intelligence.fr.

		work under Alexander Bastyrkin (former fellow student of Putin). The General Prosecutor, Chayka, sabotages the money flow to SK and Bastrykin in his turn refuses to employ three deputy prosecutors and 11 investigators from the Department for Especially Important Cases. ¹¹³
	1/2 Oct 2007: Alexander Bulbov (Cherkesov's right hand man, head of the Department for Operational Assistance in the FSKN and in charge of the Tri Kita case) and three of his associates are arrested, on the approval of the Basmany court, by the FSB and the Investigative Committee, suspected of corruption and illegal wire-tapping. ¹¹⁴ Bulbov is also accused of having ordered and paid money to the arrested Yanykin at the Moscow police. ¹¹⁵ Bulbov claims that his arrest was triggered by his role in the investigation of Tri Kita. ¹¹⁶	
	2 Oct 2007: Aleksandr Bastrykin, head of SK, declares willingness to	

¹¹³ Kommersant (2007), 'Sledstvenno-nadzornoye protivostoyaniye', published 16 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=815453>.

¹¹⁴ Johnson's Russia List (2007), 'Settling scores in the leadership of the Russian secret service', No. 214, article from www.russia-intelligence.fr.

¹¹⁵ Kommersant (2007), 'Generala Bulbova obvinili nekonkretno', published 11 October 2007, last accessed 18 March 2007, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=813702>.

¹¹⁶ Kommersant (2007), 'SK vzyal narkokontrolnuyu rabotu na noch', published 10 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=813310>.

	investigate the circumstances surrounding the death of Yury Shchekochikhin. ¹¹⁷	
	5 Oct 2007: The Basmanny court sanctions the arrest of Bulbov. ¹¹⁸	
9 Oct 2007: Cherkesov publishes an article in <i>Kommersant</i> where he admits to the existence of a war for money and power among the <i>siloviki</i> . The clan war first becomes known to the public. ¹¹⁹ He also describes 'chekism' - a true ideology or code of honour for former KGB employees. (See Appendix 2).		
	10 Oct 2007: SK indirectly responds to Cherkesov's article by stating that no one (i.e. not even the personnel of the FSKN) is protected against legal actions. ¹²⁰	
	14 Oct 2007: The FSB arrests Aleksandr Gusev, a subordinate of Bulbov,	

¹¹⁷ Izvestiya (2007), 'Glava sledstvennogo komiteta pri prokurature RF A. Bastrykin: Sledstviye trebuet tishiny', last accessed 19 February 2008, Internet: <http://www.izvestiya.ru/obshestvo/article3108870/>

¹¹⁸ Kommersant (2007), 'Genprokuratura osudila basmannoye pravosudiye', published 16 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=815298>.

¹¹⁹ Kommersant (2007), 'Nelzya dopustit, choby voyny prevratilis v torgovtsev', published 9 October 2007, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=812840>.

¹²⁰ Kommersant (2007), 'Sledstvennyy komitet otvetil Viktor Cherkesovu', published 11 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=813735>.

	suspected of illegal wiretapping. ¹²¹	
15 Oct 2007: The General Prosecutor's Office asks Moscow city court to annul the arrest of Aleksandr Bulbov. ¹²²		
	17/18 Oct 2007: The Basmanny court approves the arrest of Gusev as it has already done with the arrest of Aleksandr Bulbov and two of his subordinates. ¹²³	
		19 Oct 2007: Putin comments on Cherkesov's article, saying that it is wrong to bring these kind of problems to the media and that anyone talking about a civil war between security agencies 'should, first of all, be spotless'. ¹²⁴
		20 Oct 2007: Putin creates the State Anti-narcotics Committee (GAK), headed by Viktor Cherkesov. Its structure resembles that of the National Anti-terrorist Committee (NAK), which was formed in Feb 2006 and

¹²¹ Newsru.com (2007), 'Sud sanktsioniroval arest byvshego ofitsera FSKN Aleksandr Guseva – podchinennogo generala Bulbova', published 18 October 2007, last accessed on Internet: <http://www.newsru.com/arch/russia/18oct2007/gusev.html>.

¹²² Kommersant (2007), 'Genprokuratura osudila basmannoye pravosudiye', published 16 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=815298>.

¹²³ Newsru.com (2007), 'Sud sanktsioniroval arest byvshego ofitsera FSKN Aleksandr Guseva – podchinennogo generala Bulbova', published 18 October 2007, last accessed on Internet: <http://www.newsru.com/arch/russia/18oct2007/gusev.html>.

¹²⁴ Kommersant (2007), 'Prezident ne sognul svoyu liniyu', published 19 October 2007, last accessed 21 February 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=816507>.

		is headed by Nikolai Patrushev. According to the political pundit Stanislav Belkovsky, it is a consolation prize for Cherkesov in his fight against Sechin and Patrushev. ¹²⁵
	24 Oct 2007: Head of the Investigative Committee Aleksandr Bastrykin denies connection between the Tri Kita and the arrest of FSKN personnel as well as the existence of a clan war in the government-controlled newspaper <i>Rossiyskaya Gazeta</i> . ¹²⁶	
	27 Oct 2007: Two officers from the FSKN are found dead in Saint Petersburg. They were probably poisoned as part of the clan war. ¹²⁷	
	31 Oct 2007: Moscow city court approves the arrest of Bulbov, rejecting the appeal by the General Prosecutor against the Basmanny court's approval of the arrest of General Bulbov. ¹²⁸	

¹²⁵ Kommersant (2007), 'Vertikal c GAKom', published 22 October 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=817406>.

¹²⁶ Rossiyskaya Gazeta (2007), 'Gromkiye zayavleniya', published 25 October 2007, last accessed 18 March 2008, Internet: <http://www.rg.ru/2007/10/25/bastrykin.html>.

¹²⁷ Bernstein, Jonas, 'St. Petersburg poisonings: Part of Siloviki factional fight?', *Eurasia Daily Monitor*, 2 November 2007, Volume 4, Issue 204. Last accessed 26 March 2008, Internet: http://www.jamestown.org/publications_details.php?volume_id=420&issue_id=4284&article_id=2372557.

¹²⁸ Newsru.com (2007), 'General Bulbov nazval zakazchikov svojego ugolovnogo dela – trekh generalov FSB', published 31 October 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/31oct2007/bulbov.html>.

Oct 2007: Bulbov accuses three FSB generals of having initiated his arrest as revenge for his investigation of the Tri Kita and Chinese connection cases. ¹²⁹		
	16 Nov 2007: Deputy Minister of Finance Sergey Storchak (former deputy head of Vneshtorgbank) is arrested by the FSB on the decision of the Basmany court. Storchak is suspected of stealing 43 million dollars. More accusations were launched on 23 Nov (the same day as Minister of Finance Aleksey Kudrin declares his support to Storchak) and 3 Dec by SK. The arrest of Storchak has similarities with that of Bulbov. ¹³⁰ The arrest is obviously also part of the conflict between the General Prosecutor and the Investigative Committee at the General Prosecutor's Office. Deputy General Prosecutor Viktor Grin defends Storchak. ¹³¹	
5 Dec 2007: The General Prosecutor closes the investigation against Storchak due to 'lack of		

¹²⁹ Newsru.com (2007), 'General Bulbov nazval zakazchikov svojego ugovnogo dela – trekh generalov FSB', published 31 October 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/31oct2007/bulbov.html>.

¹³⁰ Kommersant (2007), 'Sledstviye i nadzor ne mogut uzakonit otnosheniya', published 6 December 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=833271>; Newsru.com (2007), 'Sud rassmotrit vopros o prodlenii sroka aresta zamestitelyu ministra finansov Sergeyu Storchaku', published 10 January 2008, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/10jan2008/storchak.html>.

¹³¹ The Moscow Times (2007), 'Siloviki clash in Storchak affair', published 7 December 2007, last accessed Internet: <http://www.moscowtimes.ru/stories/2007/12/07/001.html>; Kommersant (2007), 'Sledstviye i nadzor ne mogut uzakonit otnosheniya', published 6 December 2007, last accessed 18 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=833271>.

evidence'. SK complains to the Basmany court. ¹³²		
14 Dec 2007: The General Prosecutor plans to examine the work of the Investigative Committee. ¹³³		
14 Dec 2007: Minister of Finance Kudrin visits Storchak in the FSB remand prison Matrosskaya Tishina. ¹³⁴		
	20 Dec 2007: The General Prosecutor postpones its examination of the Investigative Committee. ¹³⁵	
	23 Dec 2007: The Investigative Committee initiates a case against Vadim Bagatury, who has been working for the General Prosecutor investigating the Chinese Connection case. ¹³⁶	
28 Dec 2007: Deputy General Prosecutor Viktor Grin confirms the accusations against nine		

¹³² Newsru.com (2007), 'Sud rassmotrit vopros o prodlenii sroka aresta zamestitelyu ministra finansov Sergeyu Storchaku', published 10 January 2008, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/10jan2008/storchak.html>.

¹³³ Rossiyskaya Gazeta (2007), 'Genprokuratura idet v Sledstvennyy komitet', published 14 December 2007, last accessed 20 February 2008, Internet: <http://www.rg.ru/2007/12/14/proverka.html>.

¹³⁴ Newsru.com (2007), 'Kudrin vstretilis so Storchakom v Matrosskoy Tishine i obsudil s nim rabochiye voprosy', published 14 December 2007, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/14dec2007/meet.html>.

¹³⁵ Gazeta.ru (2007), 'Chayke podrezali krylo', published 21 December 2007, last accessed , Internet: www.gazeta.ru/social/2007/12/21/2454351.shtml.

¹³⁶ Kommersant (2007), 'Sledovatelya vyveli iz kontrabandnogo dela', published 24 December 2007, last accessed 20 February 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=839227>.

persons in the Tri Kita case. The official investigations were completed in the spring of 2007 but have not been sent to the court earlier because the defendants claimed not have had the time to read the prosecutor's request. ¹³⁷		
	10 Jan 2008: The Basmanny court prolongs the arrest of Storchak until 9 Apr 2008. ¹³⁸	
		11 Jan 2008: Putin supports the General Prosecutor's suggestion of transferring 60% of the investigations (of smaller to medium size) from the Investigative Committee to the police (MVD), the Customs service, the FSKN and some other authorities. ¹³⁹

¹³⁷ Newsru.com (2007), 'Gromkoye delo o kontrabande mebeli dlya Granda i Trekh kitov napravleno v sud.', published 28 December 2007, last accessed Internet: www.newsru.com/arch/russia/28dec2007/grand.html.

¹³⁸ Newsru.com (2007), 'Sud prodлил срок ареста замглавы минфина РФ. Storchak не согласен с предъявленным ему обвинением', published 10 January 2008, last accessed 18 March 2008, Internet: <http://www.newsru.com/arch/russia/10jan2008/ctor4ak.html>.

¹³⁹ Kommersant (2008), 'Yuriy Chayka zavodit dela v prokuraturu', published 14 January 2008, last accessed 20 February 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=841812>.

6 Appendix 2: 'Chekism' according to Viktor Cherkesov

On 9 October 2007 an article was published in *Kommersant*¹⁴⁰ by Viktor Cherkesov, head of the Federal Service for Control of Narcotics (FSKN), in which he admitted the existence of a war for money and power among the *siloviki*. The 'clan war' first became known to a broader public. At the same time he also described something called '*chekism*', which is something in between a political ideology and a code of honour for the guardians of the State - the employees of the security services.

It is difficult to say whether he was sincerely convinced of what he wrote or not. If he was, that could be a reason why Putin, as it seems, gave his agency the task of monitoring the most powerful *siloviki*, those in the Sechin clan.

When reading this one should bear in mind that Cherkesov was working in the KGB and the FSB between 1975-2000. This work seems to have included fighting the political opposition in Saint Petersburg/Leningrad.¹⁴¹

The catastrophe	The country experienced a gigantic catastrophe in the early 1990s. After the catastrophe the system gathered around its most sustainable parts. These parts were the chekist community or 'corporation', far from clear-cut, but nevertheless this group of people, chosen in the Soviet time to protect the State, turned out to be the most socially consolidated.
The 'chekist hook':	The post-Soviet society fell into an abyss and would have been smashed to pieces at the bottom if it had not had the chekist hook to cling to. Those wishing for a smash were brutally disappointed and began to criticise the hideous chekist hook, although it bore the whole society. However, this criticism was not entirely false, but at the same time the hook saved the country and this is also the historical virtue of President Putin's epoch.
Three scenarios for the future:	1) The best scenario is 'corporativism' gradually turning into a 'normal' civil society. The faster a civic society is formed the better for everyone, including the chekists. It is stupid to cling to 'the corporative acquisitions' and ridiculous to talk about the chekists as 'salt of the earth' and 'elite of

¹⁴⁰ Kommersant (2007), 'Cherkesov Viktor Vasilyevich', published 9 October 2007, last accessed 18 March Internet: <http://www.kommersant.ru/doc.aspx?DocsID=812977>.

¹⁴¹ Russian Government, 'Cherkesov Viktor Vasilyevich', last accessed 18 March 2008, Internet: <http://www.government.ru/government/executivepowerservices/50cfd9ac-e14c-48b5-a4a3-89e30a5a152c.htm>.

	the elite'.
	2) The second best scenario is acceptable and most probable. The formation of the 'corporations' succeeds and thus ensures long-term stability and a gradual march out of the deep socio-cultural depression. This scenario has great risks, including the transformation of a superpower to a Latin American-style dictatorship with a closed society of neo-feudalisms. But there is also a positive kind of 'corporativism', which Cherkesov does not specify further.
	3) The third and worst scenario is that all the catastrophic mistakes that led to the collapse of the Soviet Union are repeated. Further criticism of the chekist hook will lead to a new socio-political crisis.
The enemies of Russia:	The enemies want Russia to disappear as a country and its people from history. These 'system-competitors' once again want to gain economically from a collapse of the Russian system but the enemies are also moral people who think they are in the right to criticise the current situation like they did in the past. They point at deficiencies of the system, but forget that these are often the result of previous criticisms.
The openness of the society:	An open society is better than a closed one, but the transformation towards an open society seems unlikely and the criticism and ill-will of the enemies risk causing a new catastrophe for Russia. The chekists constitute the power that can lead the country to new open horizons or at least guarantee some kind of social stability in a closed system.
The Chekist Corporation (Community):	A healthy corporation needs to have ethical standards, preferably 'national'. Those who discover that their interest is business should leave and not try to be a warrior and a businessman at the same time. 'Today our corporation is not important in itself. It has to withstand the burdens of the transition epoch. Later it can turn into a locomotive [...] and then transform from a corporation to a normal profession, not different from others. As long as the stability of the society to a great degree depends on this power, the question of its state is a question of the country's fate. Therefore this question is of huge importance. And therefore it is improper to hide problems or use them in a large fight. That kind of process within the Soviet <i>nomenklatura</i> has already turned into a social and geopolitical catastrophe.'
Internal conflicts:	Internal conflict within the Chekist Corporation has no winners.

7 Appendix 3: State Corporations

Here is a brief overview of the six currently existing state corporations.

Bank Razvitiya (Development Bank) ¹⁴²
President Putin signed the law on Bank Razvitiya on 17 May 2007.
Task: To develop and stimulate the diversification of the Russian economy, provide support for foreign trade and investments, and other economic goals.
Chairman: The chairman of Bank Razvitiya, for the time being Vladimir Dmitriyev, ¹⁴³ is appointed by the President, on the Prime Minister's proposal.
Executive Control Committee (<i>nablyudatelnyy sovet</i>): Nine members, of which one is the chairman of the Bank. However, the Prime Minister is the chairman of the Control Committee. The other eight members are appointed by the Cabinet.
Board of Directors: The chairman and eight other members form the Board. The members are appointed by the Control Committee on the chairman's proposal. The then Prime Minister Mikhail Fradkov appointed his own son Petr, among others. ¹⁴⁴
Comment: Bank Razvitiya was created on the basis of Vneshekonombank (Foreign trade bank), which was formed out the Bank for Foreign Economic Activity of the Soviet Union.

¹⁴² If nothing else is indicated the information is based on the Federal law on Bank Razvitiya from 17 May 2007, last accessed 25 February 2008, Internet: <http://document.kremlin.ru/doc.asp?ID=039528>.

¹⁴³ Vneshekonombank, <http://www.veb.ru/ru/about/officials/chairman/>.

¹⁴⁴ Vneshekonombank, <http://www.veb.ru/ru/about/officials/board/>; Kommersant (2007), 'Vo Vneshekonombanke menyayetsa pokoleniya', published 29 June 2007, last accessed 17 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=778802>.

Rosnanotekh¹⁴⁵

President Putin signed the law on Rosnanotekh on 19 July 2007.

Task: To facilitate and stimulate the development of nanotechnology.

General Director: The General Director, for the time being Leonid Melamed, is appointed by the President, and heads the Board.

Executive Control Committee (nablyudatelnyy sovet): Fifteen members, of whom one is the General Director and the rest are appointed by the Cabinet. Five are suggested by the President, five by the Cabinet, two by the State Duma and two by the Federation Council.

Board of Directors: The General Director and his deputies are members of the Board. Other members are appointed by the Control Committee on the General Director's proposal.

Comment: This sector has so far been overseen by deputy Prime Minister Sergey Ivanov.¹⁴⁶

¹⁴⁵ If nothing else is indicated the information is based on the Federal law on Rosnanotekh from 19 July 2007, last accessed 22 February 2008, Internet: <http://document.kremlin.ru/doc.asp?ID=040898>.

¹⁴⁶ Government (2008), Government commission on Nanotechnology, last accessed 17 March 2008 Internet: <http://www.government.ru/government/COORDINATINGAUTHORITY/IVANOV/PSNNT/SOSTAV/>.

Fund to reform the public housing complex ¹⁴⁷
President Putin signed the law on the Fund to reform the public housing complex on 21 July 2007.
Task: To facilitate the reform of the public housing sector.
General Director: The General Director, for the time being Konstantin Tsitsin, ¹⁴⁸ is appointed by the Cabinet, and heads the Board.
Executive Control Committee (nablyudatelnyy sovet): Seventeen members, appointed by the Cabinet. Six are suggested by the President, five by the Cabinet, two by the State Duma, two by the Federation Council and two by the Public chamber.
Board of Directors: The General Director and six other members form the Board, although according to the Funds website there are only four other members, instead of six. ¹⁴⁹ The members are appointed by the Control Committee on the General Director's proposal.
Comment: The fund will control at least 240 billion roubles.

¹⁴⁷ If nothing else is indicated the information is based on the Federal law on Fund to reform the public housing complex from 21 July 2007.

¹⁴⁸ Fund to reform the public housing complex (2008), the board, last accessed 17 april 2008, Internet: www.fondgkh.ru/newsgroup/32.

¹⁴⁹ Fund to reform the public housing complex (2008), the board, last accessed 17 april 2008, Internet: www.fondgkh.ru/newsgroup/32.

Olimpstroy¹⁵⁰

President Putin signed the law on Olimpstroy on 30 October 2007.

Task: To build the infrastructure for the Olympic Games in Sochi 2014, but also a general development of the city of Sochi as a resort.

President (chairman): The president of Olimpstroy, for the time being Semen Vaynshtok, is appointed by the Cabinet.

Executive Control Committee (*nablyudatelnyy sovet*): The members of the Control Committee, one of whom is the president of Olimpstroy, and the number of members are decided by the Cabinet. The chairman of the Control Committee is appointed by the Cabinet.

Board of Directors: The president of Olimpstroy is part of the board, the nine other members of the board are appointed by the Control Committee.

Comment: Olimpstroy will reportedly receive almost 200 billion roubles, mostly from the federal budget.¹⁵¹ It will also have the opportunity to import goods tax-free.¹⁵²

¹⁵⁰ If nothing else is indicated the information is based on the Federal law on Olimpstroy, last accessed 22 February 2008, Internet: <http://document.kremlin.ru/doc.asp?ID=042342>.

¹⁵¹ Kommersant (2008), 'Goskorporatsiya Olimpstroy', published 14 February 2008, last accessed , Internet: www.kommersant.ru/doc.aspx?DocsID=852800.

¹⁵² Newsru.com (2007), 'Olimpstroy postroit Olimpiadu za 200 mldr Rubley. Budet vveden osoby rezhim bezopasnosti', published 17 September 2007, last accessed 17 March 2008, Internet: <http://www.newsru.com/arch/russia/17sep2007/plan.html>.

Rostekhnologiya ¹⁵³
President Putin signed the law on Rostekhnologiya on 23 November 2007.
Task: To produce and export high-tech products and attract investments in various industrial branches, including the Military Industrial Complex.
General Director: The General Director, for the time being Sergey Chemezov, is appointed by the President, and heads the Board.
Executive Control Committee (<i>nablyudatelnyy sovet</i>): Includes nine persons appointed by the President: the General Director, four representatives of the President and four representatives of the Cabinet.
Board of Directors: The General Director and his deputies are members of the Board. Other members are appointed by the Control Committee on the General Director's proposal.
Comment: Rostekhnologiya is a holding company that evolved from FGUP Rosoboronexport, which in its turn controlled various industries (including car manufacturing, helicopters, metallurgic industry, etc). This means that Rostekhnologiya is also engaged in civil exports. Since a State Corporation is a state-owned non-profit corporation, it solves a problem that Rosoboronexport has had (today represented in 44 countries). Its foreign offices are often located at the embassies - which conflicts with the Vienna Convention on diplomatic relations. Russian export of military material today is rather successful through military-technical cooperation but Rostekhnologiya is also hoped to help the civil exports. ¹⁵⁴

¹⁵³ If nothing else is indicated the information is based on the Federal law on Rostekhnologiya, last accessed 22 February 2007, Internet: <http://document.kremlin.ru/doc.asp?ID=042960>.

¹⁵⁴ Kommersant (2007), 'Korporativnoye dvizheniye', published 4 September 2007, last accessed 14 March 2008, Internet: <http://www.kommersant.ru/doc.aspx?DocsID=801124>.

Rosatom¹⁵⁵

President Putin signed the law on Rosatom on 1 December 2007.

Task: To unify the management of the nuclear power industry and the nuclear weapon complex.¹⁵⁶

General Director: The General Director, for the time being Sergey Kirienko¹⁵⁷, is appointed by the President, on the Prime Minister's proposal.

Executive Control Committee (*nablyudatelnyy sovet*): Nine members, of which one is the General Director. Eight represent the Cabinet and the President, but without further specification. The chairman of the Control Committee is appointed by the President.

Board of Directors: The chairman is part of the Board. The members are appointed by the Control Committee on the chairman's recommendation.

Comment: In March 2007, Deputy Prime Minister Sergei Ivanov stressed the export possibilities for civilian Russian nuclear technology and the importance of diversifying its energy supply and decreasing Russia's own dependence on gas.¹⁵⁸ The latter is especially important for Russia's ability to export gas.

¹⁵⁵ If nothing else is indicated, the information is based on the Federal law on Rosatom by 1 December 2007, last accessed 22 February 2007, Internet:
<http://document.kremlin.ru/doc.asp?ID=43128&PSC=1&PT=3&Page=1>; Federal law on Rosatom, Amendments, from 1 December 2007, last accessed 22 February 2007, Internet:
<http://document.kremlin.ru/doc.asp?ID=043129>.

¹⁵⁶ Newsru.com (2007), 'Putin podpisal zakon o goskorporatsii Rosatom', published 3 December 2007, last accessed 22 February 2008, Internet:
<http://www.newsru.com/arch/russia/03dec2007/atom.html>.

¹⁵⁷ Ukaz presidenta (2007), last accessed 22 February 2008, Internet:
<http://document.kremlin.ru/doc.asp?ID=043289>.

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