

Kremlin Inc: the KGB and Putin's power grab

In the final extract from her explosive book, *Putin's People*, Catherine Belton explains how the Russian president set up a near-feudal system of rulership

While Putin was squeezing the independence out of the Yeltsin-era oligarchs, jailing Mikhail Khodorkovsky and threatening to eliminate the others as a class, Yuri Kovalchuk, the KGB-connected main owner of St Petersburg's Bank Rossiya, was at the centre of a group of loyal KGB allies rising fast to replace them in the second term of Putin's presidency.

At first quietly and then ever more noticeably, they began to benefit from insider deals. The transfers from Gazprom transformed Bank Rossiya, for instance, from a regional banking minnow few in Moscow had ever heard of into a new financial powerhouse with tentacles across Russia. Its assets mushroomed forty-fold after 2004, to reach \$8.9 billion within eight years. The transfers also led to the handover of control of the country's third-biggest bank, Gazprombank, the Gazprom financial arm that held assets worth tens of billions of dollars, to Bank Rossiya.

None of the asset transfers would have happened had Putin's men not taken over Gazprom at the start of his presidency. Ever since Putin made the replacement of its management with his own allies from St Petersburg one of his first priorities, its vast cash pools and financial assets had presented a wealth of opportunity for his inner circle. The asset sales would also never have gone through if the more liberal Yeltsin-era holdovers such as Mikhail Kasyanov and Alexander Voloshin had remained in government. "Before, everyone had to agree," said Vladimir Milov, a former deputy Russian energy minister. "But in Putin's second term there was a very clear moment when

the St Petersburg group took what the Moscow group hadn't wanted to give." One by one, Putin's men were being put in charge of swathes of the economy, while the *siloviki* [see Putin's players, below] were taking over the court system, the federal tax service and other branches of government previously out of reach to them.

It was part of a process that became known as "Kremlin Inc.", whereby Putin in his second term appointed key loyalists in charge of strategic sectors of the economy. The process was most visible as he installed his closest KGB allies not only in charge of the state-controlled energy majors Gazprom and Rosneft, but of a host of state companies.

First there was Aeroflot, the airline that had once been the fiefdom of the Yeltsin Family. Viktor Ivanov, Putin's KGB comrade from St Petersburg who now served as deputy head of the administration, was installed as its chairman at the end of 2004. Then there was Russian Railways, a vast empire of 1.3 million employees and revenues totalling nearly 2 per cent of Russia's GDP, where Vladimir Yakunin, the bluff former senior KGB officer who'd been a leading Bank Rossiya shareholder and a member of the Ozero dacha co-operative, was appointed president in June 2005.

Andrei Akimov, the former Soviet state banker with ties to foreign intelligence, was repatriated from Vienna and promoted to oversee Gazprombank. Andrei Kostin, a former Soviet diplomat once based at the embassy in London, took over the reins at Vneshtorgbank, or VTB, the direct descendant of the Soviet bank of foreign trade. Putin appointed his closest colleague from the Dresden years, Sergei Chemezov, as head of the state arms export agency, Rosoboronexport, in 2004.

"The people from the KGB and the financiers of the KGB are the ones who run the show now," said one leading participant in this process triumphantly. "Finally, they are taking over from the first layer of capitalism." "The 1990s oligarchs have ceased to be oligarchs and just become businessmen again. Now we have a Chekist oligarchy," said leading opposition politician Boris Nemtsov sardonically.

But it was the shareholders of Bank Rossiya who were accumulating wealth most silently and rapidly. Among their number, for a time, was Gennady Timchenko, the low-profile alleged former KGB operative-turned-oil trader who'd worked closely with Putin in St Petersburg. After

Khodorkovsky was jailed and Igor Sechin's Rosneft began taking over Yukos, the west Siberian oil producer that had belonged to Khodorkovsky and was once Russia's biggest oil producer, Timchenko focused more on his oil-trading operations. His latest venture, Gunvor, was sinking roots deep into Switzerland. Quietly, almost imperceptibly at first, it began picking up the barrels of oil once traded by Khodorkovsky's Yukos.

The Bank Rossiya shareholders were the elite of Putin's inner circle. And as the bank grew in size during the second term of Putin's presidency, so did the residences of the shareholders. They moved en masse to a leafy island in the delta of St Petersburg's Neva

River that had once been home to the chancellors of the tsars. The gated compound of palatial townhouses on Kamenny Ostrov, or Stone Island, was surrounded by an ornate moat, sweeping stone bridges and heavy security. The new inhabitants of the renovated compound, the financial courtiers behind the Putin regime, took on the mantle of modern-day noblemen. They would dress in tailcoats for secret parties at palatial estates, their wives and girlfriends in ballgowns from the era of Catherine the Great. The starlets hired to perform for them would not be told who their audience was, and would be paid in diamond rings, wristwatches and icons — anything valuable, as long as it didn't leave any trace.

More than any other, the story of the rapid expansion of Bank Rossiya in Putin's second term casts light on the formation of a Kremlin *obschak* — Russian criminal parlance for a common cash pot or slush fund for a criminal gang — that could be used both for Putin's personal needs and to bolster the rule of his KGB clan. As with the slush funds created in Liechtenstein and other havens for Putin and his St Petersburg allies in the early Nineties, the lines between cash taken for strategic and personal needs were always blurred. The share transfers of Sogaz, Gazprom's insurance arm, to Bank Rossiya, for instance, were the start of a process by means of which a vast national media empire was transferred into Kovalchuk's loyal hands, helping cement the Kremlin's strategic media monopoly. But they also allowed a palace fit for a tsar to be built for Putin on the Black Sea. Some of the hundreds of millions of dollars stashed in the network of companies behind Bank Rossiya appeared to lead directly to Putin. They were part of Putin's personal wealth, according to a financier who worked on the schemes.

The man who drew open the curtain on how the system worked was Sergei Kolesnikov, a member of the tight-knit circle of financiers closely involved in Bank Rossiya's operations. He'd become increasingly concerned at how the bank's precipitous growth was

symptomatic of the increasing lack of checks and balances on Putin's regime.

"When Putin first came to power, I viewed his arrival with great gladness," he said. "We all connected it to the bringing of order to the country. In the first three years, I supported him and saw that everything he did was good, and even when he threw Khodorkovsky in jail I thought it was good. But then, after the second election in 2004, this understanding that he could rule forever began to appear... They'd taken control of the media and then business through the Khodorkovsky case. But then they cleared the political field. They cancelled the elections for governors and for the mayors in the biggest cities. This was the main task. There was no chance for independent people to appear and develop themselves."

It was a process, said Kolesnikov, shaking his head, that had left Putin ruling like a tsar, presiding over what was becoming a near-feudal economy. The Yeltsin-era oligarchs were cowed by Khodorkovsky's trial, fearing that any one of them could face a similar fate. Kolesnikov saw that, instead of eliminating oligarchs as a class as Putin had pledged, the men behind Bank Rossiya had become part of a new oligarchy.

Kolesnikov himself had been one of their number. He knew intimately how the Putin system worked. He'd lived among the Bank Rossiya shareholders on Kamenny Ostrov. But he became ever more horrified as he observed the escalation in asset-siphoning from Gazprom: "As soon as you take control of financial resources, it is not possible to stop. This is a law of business."

By the autumn of 2010, he was unable to bear it any longer. Taking only a small bag that contained, among other things, USB sticks with a trove of documents on all the transactions he'd conducted for Putin's men, he slipped out of his townhouse on Kamenny Ostrov and hurried to the airport, where he bought a one-way ticket to Turkey, and then to the US. The documents he carried out with him were a road map of the creation of a presidential *obschak*.



Vladimir Putin at the 2004 inauguration ceremony for his second term as president

Extracted from *Putin's People: How the KGB Took Back Russia and then Took on the West* by Catherine Belton, published by HarperCollins at £9.99

Putin's players

Putin's inner circle, the *siloviki*

● **Igor Sechin** — Putin's trusted gatekeeper, a former KGB operative from St Petersburg who rose in power as deputy head of Putin's Kremlin to lead the state takeover of the Russian oil sector. Later became known as "Russia's Darth Vader" for his ruthless propensity for plots.

● **Nikolai Patrushev** — Powerful former head of the Federal Security Service (FSB), the successor agency to the KGB, and current Security Council chief.

● **Viktor Ivanov** — Former KGB officer who served with Putin in the Leningrad KGB and oversaw personnel as deputy head of Putin's Kremlin during his first term, leading the Kremlin's initial expansion into the economy.

● **Viktor Cherkosov** — Former senior KGB officer who ran the St Petersburg FSB and was a mentor to Putin, moving with him to Moscow, where he remained a close adviser, first as first deputy head of the FSB and then running the Federal Drugs Service.

● **Sergei Ivanov** — Former Leningrad KGB officer who became one of the youngest ever generals in Russia's foreign intelligence service in the Nineties and then rose in power under Putin's presidency, first as defence minister and then as Kremlin chief of staff.

● **Dmitry Medvedev** — Former lawyer who started out working as a deputy to Putin in the St Petersburg administration when he was in his early twenties, and followed closely in Putin's footsteps thereafter: first as a

deputy head of the Kremlin administration, then as its chief of staff, then as Putin's interim replacement as president.

The custodians, the KGB-connected businessmen

● **Gennady Timchenko** — Alleged former KGB operative who rose through the ranks of Soviet trade to become co-founder of one of the first independent traders of oil products before the Soviet fall. Worked closely with Putin from the early Nineties, and according to some associates, before the Soviet collapse.

● **Yury Kovalchuk** — Former physicist who joined with other KGB-connected businessmen to take over Bank Rossiya, a St Petersburg bank that, according to the US Treasury, became the "personal bank" for Putin and other senior Russian officials.

Nikolai Patrushev, left, and Igor Sechin



● **Arkady Rotenberg** — Former Putin judo partner who became a billionaire under Putin's presidency after the state awarded his companies multibillion-dollar construction contracts.

● **Vladimir Yakunin** — Former senior KGB officer who served a stint undercover at the United Nations in New York, then joined with Kovalchuk in taking over Bank Rossiya. Putin anointed him chief of the state railways monopoly.

'The Family', the coterie of relatives, officials and businessmen closely surrounding the first Russian president, Boris Yeltsin

● **Valentin Yumashev** — Former journalist who gained Yeltsin's trust while writing his memoirs, and was anointed Kremlin chief of staff in 1997. Married Yeltsin's daughter Tatyana in 2002.

● **Tatyana Dyachenko** — Yeltsin's daughter who officially served as his image adviser, but was essentially gatekeeper to the president.

● **Boris Berezovsky** — Former mathematician who made his fortune running trading schemes for carmaker AvtoVAZ, the producer of the boxy Zhiguli car that epitomised the Soviet era, and inveigled his way into the good graces of Yeltsin and his Family. When he helped Roman Abramovich acquire the Sibneft oil major, he became the epitome of the intensely politically wired oligarchs of the Yeltsin era.

● **Alexander Voloshin** — Former economist who started out working with Berezovsky on privatisations and other schemes, and was transferred to the Kremlin in 1997 to work as Yumashev's deputy chief of staff. Promoted to chief of staff in 1999.

● **Roman Abramovich** — Oil trader who became Berezovsky's protégé

and associate. Once described by Alexander Korzhakov, Yeltsin's security chief, as "cashier" to the Yeltsin Family (a claim denied by Abramovich). Later said to have a "good relationship" with Putin.

● **Sergei Pugachev** — Russian Orthodox banker who was a master of the byzantine financing schemes of Yeltsin's Kremlin, and then became known as Putin's banker too. Co-founder of Mezhprombank, he straddled the worlds of the Family and the *siloviki*.

The Yeltsin-era oligarch who crossed Putin's men

● **Mikhail Khodorkovsky** — Former member of the Communist Youth League who became one of Russia's first and most successful businessmen of the perestroika era and the 1990s.

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