

RUSSIAN GOVERNMENT'S "SELECTIVE" ANTI-CORRUPTION CAMPAIGN IN THE ENERGY SECTOR

By the end of 2011 Russian Prime-Minister V. Putin has begun campaign for fight against corruption in the Russian energy sector. Experts underline, that recent anti-corruption "struggle" in Russia will be prolonged for two-three months period, and will probably, "victoriously to be come to the end" just by the Russian presidential election, i.e. by the early March 2012.

At a session of the Russian Governmental Commission on the Electric Energy Development, Putin has attacked upon management of the state-run energy companies, with affiliated private firms, as a rule, which have deduced state assets from the country. However, many experts believe that "small fries" will suffer, and Putin's "elite" remains untouched, i.e. "struggle" isn't directed against powerful elite corruption.

In the Russian media this campaign is widely discussed at an average and a lowest level of the energy sector, on the one hand, but with another — there is no information on high level "elite". Statements of officials are considered as an element of the pre-election company.

The Russian energy market not trusts in a reality of anti-corruption campaign. Managers of state-run

energy companies try their best to move from the state-run firms to the private companies, established earlier

According to many experts, the Russian energy-market also not so trusts in a fight against corruption reality, statements of officials are faster considered as an element of the pre-election company. The sound-ed data don't make impression of serious investigation. On the other hand, Vladimir Putin has generat-ed new risks in sector — resignations will lead to delay of consideration of fundamental questions, such as updating of investment programs and devel-opment of tariff decisions.

From the beginning of this year the expert communi-ty smartly discussed the information that five key persons in the Russian power have received new po-sitions during the last days of 2011: Sergey Ivanov – ►

in the Kremlin, Sergey Naryshkin – in the Duma, Dmitry Rogozin (defense) with Vladyslav Surkov (modernization) – in the government, and Igor Sergun – in the Military Intelligence. But for some reasons all have missed the fact that in a heat of fighting against corruption in the energy sector, initiated by the prime minister on the threshold of March's presidential election in the Russian Federation, changes haven't concerned tops of this most opaque branch of the Russian government. It reminds badly staged pre-election PR...

No news good news

Despite the sharp criticism of energy sector from V. Putin, the minister S. Shmatko with his "command", and the first "energy" vice-premiers – V. Zubkov and I. Sechin, remained on their own places. Moreover, one of the "energy-heavyweights" of Russian government, - V. Zubkov even "has put on promotion", -

after December 4, 2011 parliamentary elections of the Russian Federation, premier V. Putin has presented him a few new spheres of supervision. The prime-minister has charged, apart from his usual functions, also to supervise issues of social security, public health services, culture and building of accessible habitation, in addition.

The above-stated proves our assumptions of clan character the relation in the Russian energy sector, stated by us in the summer of last year. Then we wrote, that begun from March of last year president D. Medvedev's order to withdraw of state-officials from boards of directors of the state-run companies had «campaignian character» and the Putin's "elite" "was raised" in the state-run companies (see News-BaseFSUOGM 2011; Issues 638, 639, 640). Igor Sechin, for example, the first vice premier-minister, supervisor the oil-gas extracting industry, long time was the chairman of the board of directors of state-run oil



Vladimir Putin

company NK "Rosneft". In the time of Putin's presidential power the state-run energy companies became great strength of economy at expense of oppression of the private business.

And it occurs when as in infringement of president D. Medvedev's March 2011 order, about incompatibility of political and economic positions, the first vice premier-minister V. Zubkov continues to remain on a position of the chairman of board of directors of the biggest state-run company in the country, the energy-giant "Gazprom". According to the decree of the President of Russian Federation V. Zubkov, by October, 1st of last year, should leave board of directors. Above mentioned means, that the Putin's "elite" of the Russian energy sector remains untouched...

"Closer circle" remains untouched

According to the former advisor of Russian prime-minister, Mr. A. Illarionov, Putin divides his "closer circle" on two categories: one is the "economic group", with which he discusses economic problems, and the second – "businessmen", with which he carries out control of property and the finances in the country. The unique person entering within both these categories, is Igor Sechin, Putin's irreplaceable adherent.

According to experts, Putin's clan supervises an assets in 4,5 trillion Russian Rubles that makes 10-15% of the country GDP. Corruption money turnover equals to three hundred billion dollars that is equal to one quarter of the GDP.

Moreover, web-site Wikileaks wrote, that V. Putin also is involved in the corruption schemes himself. For example, American diplomats named the company RosUkrEnergo as a "suspicious" and an "opaque". Ex-Ukrainian president V. Yushchenko "...hasn't excluded that the idea of creation RosUkrEnergo in 2002 could belong to president Kuchma". V. Yushchenko named co-owners RosUkrEnergo of Putin and the present president of Russia, and then the former head of administration Dmitry Medvedev.

Mr. A. Illarionov says that after displacement from his positions the then chief of Presidential Administration A. Voloshin, the then prime-minister M. Kasyanov and the JSC "RAO UES" (Russian United Energy Systems) liquidation, Putin's "people in uniforms" have completely replaced Yeltsin's clan.

Employees from the KGB (former Soviet Security Service), SVR (Russian Intelligence), GRU (Russian Military Intelligence), the Ministry of Internal Affairs, have been appointed to positions, - they have occupied 42.3% of all staff of the government. Approximately 25,6% of high level decision makers are made by officials and businessmen from St.-Petersburg, Putin's motherland. About 78% of leading political posts in Presidential Administration, both chambers of Parliament and in all law-enforcement authorities

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are occupied with the persons connected with Security Services. Putin's close friends, not known before, - G. Timchenko, Y. Kovalchuk and brothers Rotenbergs became billionaires, when Putin was the President of Russia. The main shareholder of bank "Russia" Y. Kovalchuk supervises the largest assets of the country, pension fund GASFUND, insurance company SOGAZ and media holding of Gazprom-media. Now the position of the deputy minister of Internal Affairs is occupied with Oleg Safonov, Valery Golubev is the deputy general director of "Gazprom", and the Department of Economic Security supervises Eugenie Shkolov. All three these men are former officers of the KGB and Putin's old friends.

In "heat" of today's anticorruption struggle the Ministry of Energy demands from the energy companies of data on heads and deputies, members of their families and relatives. However the Prime-minister cares ►

not only of friends, but also their families and relatives. Borys Kovalchuk, Yury Kovalchuk's son has been appointed as a head of department of national projects of the government at first, and then as a managing director of the state-run INTER RAO (former RAO UES), - certainly nobody will touch him... Just about "practice" of replacement of officials on economic posts by the family members, we specified in aforementioned publications, - in the summer of last year (see NewsBaseFSUOGM 2011; Issues 639).

Extreme audit

In a consequence of such a clan control, according to reports of the Transparency International (TI), the business climate became less transparent and more corrupted within the Russian energy sector last years. As a result, by estimations of the TI for 2011, in the list of the countries on corruption level, Russia is 143rd among the investigated 183 states in the



Sergey Shmatko

world. Also it is the country, where following the results of 2011, the companies of oil and gas sector earned only as a dividends more than 300 bln rubles (10 bln dollars), not including different budgetary and other taxes and payments that almost twice more than year before. But because of the all-round Russian corruption, it is not clear in whose pockets settle these profits.

From the above-stated is clear that main anticorruption "struggles" occur at a of average and lowest level of energy sector, where this struggle is in a heat. So, the Prime-minister of the Russian Federation Vladimir Putin has held on December 19th, 2011 at a session of the Russian governmental Commission on the Electric Energy Development on which has subjected to criticism work of the companies of sector, having suggested them to prepare personnel decisions.

As a result, like in a criminal community, mentioned on a session by the Prime-minister, - Dmitry Ponomarev, the chairman of the board of noncommercial partnership of "Market's Council" and "Administrator of the Electricity Trading System", also Yury Zheljabovsky, top-manager of the of Federal Electricity Network's (FEN) branch company - "Trunk Electric Networks (TEN) of Urals" have declared about leaving from the position, also Holding MRSK, the "Tjumenenergo", and FEN. The management of "Gazprom" has dismissed three top-managers: the vice-president of board Alexander Ananenkov, the chiefs of departments - Victor Ilyushin and Olga Pavlova.

There is strange, but director of the TEN has declared, that he doesn't want to admit influence of his charges on reputation of the company (?!). The first deputy of board chairman of the FEN Alexander Bobrov has explained the resignation by importance of the nation's decision, because he works in a state-run company (?!)...

To the head of "Market Council" Dmitry Ponomarev Putin incriminated being of the head of "Moscow Electricity Stock Exchange" (is engaged in wholesale resale of the electricity) and communication with JSC

"RusPower". In turn, of "market Council" assured that charges don't represent the facts, but the governmental commission has made the decision on Ponomarev's resignation nevertheless.

The Minister of Energy of Russia Sergey Shmatko has declared in the end of December that concerning these managers criminal investigation will be made. Moreover, Ministry of Energy of Russian Federation has transferred in law enforcement bodies materials following the results of check of heads of the state-run energy companies, and "... even it is raised a number of criminal cases", - Vice-premier Igor Sechin has informed on topic literally in a week after meeting with the Prime-minister Vladimir Putin. Sechin has noticed that additional audit, by which results have been dismissed a number of managers, has been conducted. Besides, as he said, audit of data concerning other largest infrastructural companies, such, as "Transneft" are initiated.

It is interesting, how the Russian investigators, could for one pre-NewYear's week, have audited and raised "... a number of criminal cases", on such huge company, for example, as is a holding MRSK, with a total capitalization in 5.96 billion dollars, on the Moscow Interbank Stock Exchange, for December 23rd, 2011?

Anti-corruption barometer

As a result, securities of FEN and MRSK, whose heads more often than others appeared in performance of the Prime-minister for last weeks of 2011, have fallen in price on 9 and 4%, and their capitalisation has decreased on 36 bln and 4 bln rubles correspondingly. Perhaps, recession directly was not connected with "Putin's campaign", partly it's depends on a big volatility of all energy-market, - analyst Deutsche Bank Dmitry Bulgakov believes. On the other hand, the steadfast attention of the authorities to sector, frightens investors. «These personnel changes – not a sign of movement towards liberalisation», – were underlined in interview to the Voice of America by Edward Lukas, one of the editors of The Economist, the author of the book "The new "cold war ".

As a proof to these words we can add that in «a fight against corruption heat» in the Russian energy sector, in January, 2012 the government of the Russian Federation has made decision to transfer to the largest Russian oil company of JSC NK "Rosneft" (which is considered under control to the state and personally to V. Putin), three fields on an out-of-competition basis. The corresponding order is placed, in the end of December of last year, in a databank of federal standard and administrative documents. According to these official documents, "Rosneft" has received an investigation and extraction exclusive right under the combined license on "Central-barents", "Perseevsky" and "Fedynsky" fields. This direct infringement of the antimonopoly law of Russia.

“...These personnel changes – not a sign of movement towards liberalization”

Edward Lukas

From state-run sector to private

In the Russian media there were data that the former top-managers of the then Russian JSC RAO UES Andrey Rappoport and Alexander Chistjakov have appeared as a co-owners of oil company Ruspetro. Two businessmen possess 48% of shares in Ruspetro, 29% owns the management, 18% - private investors and 5% - the "Capital Savings Bank". Ruspetro can be estimated in 1-1.2 billion dollars. The basic assets of the Ruspetro - three deposits in Khanty-Mansiysk autonomous region. It possesses East-Inginsky, Pottynsko-Inginsky and Poljanovsky deposits. Cumulative reconnoitered reserves of the Ruspetro are estimated in 2.1 billion barrels of oil. Company extraction makes about 4.5 thousand barrels a day. Half of barrels of oil goes for export.

Rappoport and Chistjakov have left state-run energy sector in 2008 after they have provided "warm places" in the Ruspetro. Rappoport began career in Alpha-Bank then in the late nineties worked as the vice-president of the YUKOS. In the then RAO UES he has passed in 1998 and has held a position of the deputy

of the head of company - Anatoly Chubays. After beginning of the reforms Rappoport has headed the FEN. From 2002 his deputy was Chistjakov who supervised investment activity of the then RAO UES before.

Here is another example. Planned sale of the airport "Domodedovo" – perhaps represents a reaction to the attention of the prime minister of Russia raised recently to a problem of the offshore companies and their owners. It is known that owners of "Domodedovo" (whose persons remain till now a riddle) have charged to investment bank Goldman Sachs search for the Russian airport buyer. That is the reflexion of long opposition of proprietors of the airport and the government. As a result, owners simply want to secure themselves and to deduce from under blow.

But on the other hand, V. Putin's interests, for example, to the energy-company "Surgutneftegaz" are well-known. And in whose pocket go billions of "Surgutneftegaz" still is a big question, because the largest shareholders of the company are not known. In the reporting of this company, 8.1% of shares belong to a private pension fund "Surgutneftegaz", and 91.9% - to another shareholders (<http://top.rbc.ru/economics/15/12/2011/629986.shtml>). Read - to the Prime minister of the Russian Federation. That is why sale of the airport "Domodedovo" it is actual from a view of transparency, and "Surgutneftegaz" — isn't.

To avoid such an unclear situation Russian parliament adopted changes in the Civil Code. According to changes, all companies are obliged to present names of all owners to the contractors. But the way out was found from this situation too. The First Vice-premier I. Sechin has allowed to state-run companies not to learn the information on owners of the clients. Besides, to suppliers and contractors from among the public sector, working with state companies, have allowed not to give the information on shareholders, whose share doesn't exceed five percent.

Here is one more example. Igor Sechin has declared that he is ready to work on the project of

amalgamation of the "Zarubezhnefti" and the "Transneft" for the subsequent privatization of the joined company. Though Sechin, as he said, has specified in some possible obstacles which can arise at merge of the companies. In particular, Sechin has underlined that "Zarubezhneft" has extracting assets, and "Transneft" isn't engaged in extraction.

But earlier, in the beginning of January, 2012 the Russian newspaper "Kommersant", referring to unnamed sources in the government wrote, that Sechin has offered the prime minister of Russia V. Putin to postpone privatization of some state companies, including "Transneft" and "Zarubezhnefti". It was informed that Sechin considers sale of assets of "Transneft" economically inefficient, and privatization of "Zarubezhneft" in general suggests to refuse. According to the vice-premier, problem which are carried out by "Zarubezhneft", it will be impossible to transfer to commercial structure. What's happen in two weeks? It's clear, like in the above mentioned case with Rappoport and Chistjakov, - the way out was found,...

Undoubtedly, such a "selective" anti-corruption testify to «confused reaction» of V. Putin taken by surprise in the sizes and the nature of national protests. Edward Lukas believes that the Putin's internal circle, actually ... is a command of absolutely unpopular people in Russia, each of them is in own way unloved the people and even the antihero. The Putin's popularity served some kind of indemnification of unpopularity of its environment and was used as very comfortable roof by the whole mode. But suddenly his ratings have started to fall sharply, people support not seems such firm any more, and Putin personally now is in very much difficult situation. Certainly, this is the essence of initiated by Putin anti-corruption company in the Russian energy sector. Probably V. Putin entirely won't cut down the "energy-tree" on which himself and his "elite" sit till today.

Note:

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