



The Age of Impunity: Russia After Communism and Under Putin

By Michael Weiss and Julia Pettengill

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Introduction

“The clock of communism has tolled its final hour. But the concrete structure has not completely collapsed. Instead of being liberated, we may be crushed beneath the rubble.”

Alexander Solzhenitsyn made this prediction just prior to the collapse of the Soviet Union in 1991, and the revival of Russian autocracy in the last decade has sadly demonstrated the prescience of Solzhenitsyn’s prophecy.¹ This is not to say that the Russia of 2011 was fated to endure the “sovereign democracy” of Vladimir Putin, as is all-too-often suggested. As the country prepares for its next round of pantomimed elections, it is important to reflect upon the developments and decisions which led the country to its current state.

Indeed, a closer inspection reveals a country which is reaping the consequences of poor decisions made in the panicked days of the first post-Soviet decade. Seven decades of totalitarianism left the country with a devastated economy, atomised society and perverse political culture. The political developments of the twenty years following the collapse of the Soviet Union bear significant implications for Russia’s future political development, and important lessons for transitioning societies around the globe. This report provides an overview of the key developments of post-Soviet Russia which contributed to the current status quo, including the formative decisions of the Yeltsin era; the origins and reasons for the success of “Putinism;” the merger of oligarchic and state interests under Putin; the decline in political freedom; Putin’s economic policy and foreign policy.



Protestors on the Berlin Wall near Brandenburg Gate in 1989. -- Robert Maass/Corbis

“THE REVOLUTION BETRAYED”: THE YELTSIN YEARS

Boris Yeltsin was elected president of the Russian Federation in December 1991, riding a wave of popular support after facing down the attempted coup by hardline members of the Politburo in 1991. Yeltsin rose to prominence as a democratic populist during the years of glasnost and perestroika and, as president, brought in the economic “young reformers” responsible for managing Russia’s transition from communism to the free market. The reformers’ hopes of privatising Soviet assets and building a widespread middle-class did not materialise as envisioned: by the time Yeltsin left office in 1999, ten per cent of the population owned half of Russia’s wealth, 50 per cent owned less than a fifth, and between 30 and 40 million people subsisted below the poverty line.³

After the collapse of the Soviet Union in 1992, the weakened rule of law, an acquaintance with market principles and the institutions underpinning social and political stability presented a daunting combination of challenges for the newly-formed Russian Federation. Many

of the most important building blocks of the new state were put into place incorrectly or not at all. The Supreme Soviet, (the Soviet-era parliament) was not dissolved until 1993 in an action which provoked a constitutional crisis; what had remained of the pre-democratic body was dominated by apparatchiks and Bolshevik managers of publicly owned enterprises. Their political predominance hobbled a comprehensive and principled economic liberalisation programme, leading to governance by half-measures and compromised expediencies.

The team appointed by Yeltsin to

revolutionise the economy through “shock therapy” was headed by Yegor Gaidar, Anatoly Chubais and Dmitry Vasiliev, rebel idealists who had read Hayek and Friedman under the covers during the Brezhnev era. The Financial Times’ former Moscow correspondent Chrystia Freeland memorably dubbed them “McKinsey revolutionaries”: while they all had a “Big Idea” about how to transform their country, they were less interested in overseeing the detail-oriented execution of that transformation.⁴ The result was a shock therapy administered without circuit breakers.



Russian Federation President Boris Yeltsin stands atop an armoured personnel carrier urging Russians to resist a central government takeover by Soviet hardliners— AP

The economic reformers took their practical inspiration from the broadly successful and unprecedented privatisation policies imposed in Poland beginning in the late 1980s. However, unlike their Polish counterparts, the young reformers had no political base of their own – they served exclusively at the pleasure of Yeltsin and with the backing of Western economists – and relied on coaxing wary a Soviet elite into accepting mass privatisation. In 1991, Chubais founded the State Privatisation Committee (GKI) to administer the auctioning off of vast state assets. By the end of the year, GKI offices had

been established in every Russian region, with local branches in hundreds of cities and towns.

While the infrastructure was in place, the GKI erred significantly in its two-phased programme to win political support. The first mistake was to offer workers and managers up to 40 per cent shares in their old companies and to grant them the right to buy 51 per cent of the voting shares at cut-rate prices. The managers took advantage and then some. Soon followed the spate of so-called “Red directors” — former factory managers who became wealthy rent-seekers overnight but

continued to run their businesses like corrupt and unaccountable state enterprises. Instead of free enterprise, a kind of kleptocratic feudalism persisted. According to Joseph Blasi, a Rutgers University professor who advised Chubais and GKI, two-thirds of medium and large Russian companies retained their old Soviet directors because of the GKI’s over-generous incentives package.⁵ The most ruthless and self-aggrandising of these Red directors

were the gazoviki and neftyaniki – the managers of Russia’s enormous natural gas and oil companies, who lacked any regard for minority shareholder rights or corporate governance. Not that this was entirely their fault for none had had a crash course on ethics, transparency or even proper bookkeeping methods. The historian Robert Conquest recalled visiting St Petersburg toward the end of the Soviet era and inquiring about the state of Russian roads. He was first met with shrugging complacency:

“Our roads are bad.”

“...Yes. Why is that?”

“It’s our weather - an isotherm runs down the Finnish border.”

“And seriously?”

“They were built by the state.”

“Yes, but we have roads in England which were built by the Roman state nearly two thousand years ago, and some of them are still sound.”

“Ah, but then the centurion would check that the six layers of stone had been laid down. Here, the inspector asks the foreman if they have been laid down and is answered with a bottle of vodka.”⁶

The young reformers’ cut-corners approach to privatising Russia made no allowances for rehabilitating this culture of impunity—an omission which would have lasting consequences for the subsequent decade.

To take one well-known example, even after the majority of the state-owned gas giant Gazprom had been privatised, the state still retained maximum authority in the company’s dealings. The company charter allowed managers to overrule private transfers of shares, and because of a secret agreement – which was later nullified – managers were also allowed to buy additional shares for themselves well below market price. Gazprom was also exempt from a host of export and import tariffs, as well as value-added tax.

Another notorious case was the Novosibirsk Tin Factory, whose Red director, Aleksandr Dugelny, embraced the new economic regime with the criminal zeal of Al Capone. Dugelny intentionally undervalued the company’s assets in order to seize majority ownership, and then sold off part of the tin factory to another company with which he had personal financial dealings. He further manipulated the factory’s labour force into selling him their own legally designated shares by refusing to pay their wages until they gave in. Despite being found guilty of violating Russian law, Dugelny received only a nominal fine and was allowed to keep his

majority stake in the tin factory.

Red directors also typically owned more shares than they were lawfully entitled to, a fact which the GKI overlooked and which the chaotic legal system was unable to redress. As a result, although most Russian firms were successfully privatised by 1994, the majority continued to be run like mismanaged public entities. Journalist Mikhail Berger termed this phenomenon “corruption for the sake of democracy.”⁷ Chubais himself lamented the monster he had helped create, but maintained that privatisation would recover from its infancy of lawless rapaciousness and give way to a future equilibrium. According to liberal politician Sergei Kovalyev, Chubais once said that the Red directors: “... steal and steal and steal. They are stealing absolutely everything and it is impossible to stop them. But let them steal

“Corruption for the sake of democracy.”

and take their property. They will then become owners and decent administrators of this property.”⁸

Instead, they led to a new class of Russian oligarchs, many of whom leveraged their old Communist connections into preferential financial deals and were then able to amass astounding fortunes very quickly. State industries that had been given away to citizen “shareholders” in the form of vouchers worth approximately \$60 (USD) each were bought up by a small group of people including Mikhail Khodorkovsky, Boris Berezovsky and Roman Abramovich for a fraction of their value.⁹ The scheme was disastrous; it effectively sold off a large part of the Russian economy for a mere \$9 billion, divesting citizen shareholders from their stake in the new capitalism.

Another significant blunder was the provision of tax loopholes through which various non-industrial

organisations engaged in unlikely business practices. In one of the most infamous examples of this practice, the Russian Orthodox Church imported cigarettes and alcohol duty-free. Elsewhere, misbegotten tax havens, known as *ofshornaya zona*, were established to give start-up companies limitless profits in exchange for expensive registration fees, which of course had the knock-on effect of enriching tax haven specialists. Some of these offshore registration moguls then parlayed their wealth into political influence, as when Mikhail Gutseriev, a tax haven registrar in Ingushetia, purchased seats in the Duma for Vladimir Zhirinovskiy’s ultra-nationalist Liberal Democratic Party of Russia.¹⁰

The uncertainties and insecurities created by Russia’s “Wild West” economic landscape proved unattractive to Russian-born

entrepreneurs. In the early 1990s, capital flight cost Russia between \$10 and \$20 billion per year. By 1994, Russia lost an estimated \$5 billion in tax revenue, and began to be treated

with suspicion by the International Monetary Fund (IMF), which was heavily invested in the country’s economic recovery.¹¹ The difficulties that Russia faced during this time were compounded by Yeltsin’s conspicuous deficiencies as a leader. His willingness to incorporate the *Novyke Russkiy*, or new business class, into the machinery of state paralleled the reign of the Soviet *nomenklatura*; it also undermined popular faith in the possibility of achieving genuine democratic reform.

The lucky few who thrived under Yeltsin’s market reforms lived flamboyantly and imprudently, with little interest in investing in the long-term futures of their companies, let alone in that of Russia herself. Free capitalist societies will always suffer from graft, payola and cronyism, but at least there are law enforcement bodies in place to pre-empt or punish the malefactors. These did not exist in Yeltsin’s Russia in

any meaningful way. The lack of effective anti-monopoly legislation also enabled the growth of financial-industrial groups (FIGs) – banks linked to major media or energy companies – which claimed total dominance of entire markets. The failure to enforce and build up effective campaign finance and conflict-of-interest laws also allowed FIG owners to parlay their economic fiefdoms into political “clans,” all of which vied for pre-eminence within the Kremlin. Thomas E. Graham, a former senior political analyst at the US embassy in Moscow, wrote a much-discussed article in *Nezavisimaya Gazeta* in 1995 arguing that five or six elite clans, each with its own FIG behind it, engaged in the kind of political tug-of-war that had formerly defined the relationship between the Russian executive and legislative branches from 1989 to 1991.¹² By May 1998, there were over 80 registered FIGs in Russia representing 1,000 industrial companies and 100 banks.¹³ In this way, FIGs effectively allowed seven bankers to manipulate Russia’s economy while they also self-interestedly determined Yeltsin’s economic policies.

Vladimir Potanin, one of the original oligarchs and the head of Oneximbank, used his pedigreed Soviet background (he attended Moscow State Institute for International Relations, which was practically a finishing school for future Foreign Ministry officials) to acquire the State Customs Agency, which controlled 10 percent of Russia’s GDP at the time.¹⁴

The semibankirshchina, or reign of the seven bankers, inevitably escalated into full-on gang warfare culminating in the infamous “faces on the snow” incident of 1994. Boris Berezovsky, the head of the Avotaz car manufacturing empire, had leveraged his cosiness with Yeltsin’s cabinet, particularly the president’s daughter Tatyana Yumasheva, to convince the government to allow him to

purchase ORT, the state-owned television company. Berezovsky transformed ORT into a propaganda channel for Yeltsin and was particularly helpful in supporting the Kremlin’s “Party of War” in their efforts to escalate the already devastating conflict in Chechnya. ORT also became Berezovsky’s personal counterweight to Vladimir Gusinsky’s muckraking NTV television station, which had given a fair hearing to Chechen separatism and was known for its anti-Kremlin investigative journalism. In retaliation, Aleksandr Korzakhov, Yeltsin’s bodyguard and the leading Party of War champion, ordered the Presidential Security Service to chase Gusinsky’s motorcade through downtown Moscow. The farcical scene ended in bloodshed when Security Service agents



Exiled Russian billionaire and fierce Kremlin critic Boris Berezovsky —AFP/Getty Images

bludgeoned Gusinsky’s private detail in front of more than 30 international news cameras, all with Berezovsky’s facilitation and Yeltsin’s presumed acquiescence.¹⁵

The “loans-for-shares” scheme cemented the hold of the oligarchs over the Kremlin. This disastrous arrangement was cooked up in 1994 after Vladimir Potanin offered to “manage” the mineral production company Norlisk Nickel in exchange for a sizeable commercial “loan” to the government, issued by his own Oneximbank, intended to combat high inflation.¹⁶ The scheme was also seen as a quick way to correct the earlier problem of allowing Red directors to horde all the state’s industrial assets; instead, the seven oligarchs would now gain control of key oil, steel and gas assets through

fixed auctions. Loans-for-shares worked simply. In the first three months, the state would pay its oligarch creditors at a low interest rate. Once the loans ran out, which they were scheduled to do in September 1996, the government would either have to repay them in full or sell its shares outright to the lenders for a price equal to 30 percent of the difference between the market value of those shares and the original amount lent to the government. A second round of auctions would then take place after the 1996 presidential race, thereby linking the loans-for-share scheme inextricably to Yeltsin’s re-election campaign.

Although theoretically open to all, loans-for-shares was in fact rigged from the start; foreign investors, who were viewed with suspicion both in the Soviet and post-Soviet eras, were barred from bidding on the extremely enticing state holdings as were most domestic investors outside the small consortium of Red directors and oligarchs who had been pre-approved as lenders. Potanin’s Oneximbank (not coincidentally) organised the entire

auction process. Thus were most non-approved bidders found to have “irregularities” in their applications. Mikhail Khodorkovsky purchased Yukos – a giant oil company that had absorbed and hybridised pre-existing oil enterprises, from extraction plants to refineries – for \$9 million above the starting price of \$159 million. Khodorkovsky prevailed over a formidable troika of banks competing to buy the fantastically undervalued company¹⁷. Berezovsky bought Sibneft, the newly-created conglomerate that merged an oil refinery with a production company for a mere \$300,000 above the starting price of \$100 million. Even Chubais complained that loans-for-shares was the exact opposite of free enterprise: “There is no competition, no openness,” he

reportedly told Potanin. "It is not in our tradition."¹⁸ Despite the flagrant abuses of the system, the GKI allowed these practices to continue, as did Western governments and economic institutions, which cast a Nelsonian eye on a scheme sure to open up the Russian market further to outside investment.

The Russian people became so disaffected with the Yeltsin government over this and other corrupt practices that, in 1996, they appeared poised to elect Communist leader Gennady Zyuganov president. Worried that their patron would be ejected from power, and their loans-for-shares gambit would be nullified, the oligarchs entered into an agreement known as the "Davos Pact" because of venue – that year's World Economic Forum – where the agreement was made. Namely, they would use their considerable financial power and political clout to ensure Yeltsin's re-election. Berezovsky's ORT and Gusinsky's NTV mounted a vigorous propaganda campaign to depict Yeltsin as a brave and capable leader and to smear Zyuganov, often with outright lies about where he planned to take Russia once elected. As one NTV insider put it, "We've produced so many versions [of Zyuganov's economic plans] that the communists themselves can't remember which is the real thing anymore."¹⁹

Yeltsin's eventual victory in 1996 not only solidified the oligarchs' collective kingmaker status, but also rewarded them with official influence. Potanin was named deputy prime minister; Berezovsky was appointed deputy head of the Kremlin Security Council; and Chubais, a principal enabler of the oligarchs, became Yeltsin's chief of staff, a role he embraced by vowing an end to very patronage system that he had helped formulate. Chubais by now believed that having secured Russian democracy, however tenuously defined, he could finally begin to introduce necessary

regulations and transparency into the economy that he formerly assumed would spontaneously fall into place. Yet Chubais and the other young reformers completely underestimated the political ramifications of their great experiment. As Gaidar told Chrystia Freeland, "We did not foresee how short-sighted the strategy of the so-called oligarchs would be, to what degree they would prove unable to understand their own self-interest. They were the very richest and so they stood to suffer the most if the Russian market fell."²⁰

The fundamental incompatibility between oligarchy and democratisation became apparent almost immediately after Yeltsin's re-election. Gusinsky believed he was entitled to a prize for using his Most Media empire to help



Head of the Russian Nanotechnology Corporation (Rosnano) Anatoly Chubais
– RIA Novosti

the Kremlin; he wanted to be the sole bidder for Sviazinvest, a much-desired telecommunications umbrella company.²¹ However, Chubais, now a convert to "pure" free enterprise, vowed that Sviazinvest's auction would be open and fair. When Potanin took Chubais at his word and decided to compete with Gusinsky for Sviazinvest, he provoked the so-called "Bankers' War," wherein the old court-whispering allies turned on each other. By war's end, Chubais' comrades, who never had a political following of their own, had been dismissed from government and Chubais himself had lost his positions as minister of finance and deputy prime minister. In a choice between capitalist idealism and the

pocketbooks of the new billionaire elite, Yeltsin unsurprisingly chose the latter. In the meantime, no effort was made to institute the necessary safeguards to immunise Russia from impending economic collapse.

That collapse began in 1997 when the Asia markets plummeted and oil prices followed, falling from \$18 a barrel at the start of the year to \$15 by the end.²² On October 28, 1997, the Russian stock market dropped by 20 per cent. Shocked by the scale and depth of the Russian meltdown, the IMF froze \$700 million of its \$10 billion loan to Russia, and only agreed to release the funds after the state concluded a few major investment deals. In May 1998, the second wave of the crisis hit even harder when Russia proved unable to find a single bidder for Rosneft, the last remaining state-owned oil company to be sold off. Rosneft's auction was expected to generate \$2.1 billion in public revenue but share prices across the board had dropped 10 percent in a single day. By the end of May, the whole of the Russian market was down to 40 percent of its former value. Interest rates skyrocketed to 150 percent. The government's hard currency debt stood at \$140 billion, with a repayment

schedule mandating payments of a crippling \$1-1.5 billion per week.²³

The catastrophe propelled Chubais back into the Kremlin inner circle, as he was seen as the only Russian economist whom Western lenders would ever trust. However, initial promises by the United States and the World Bank to provide Russia with a sorely needed bail-out of \$10 billion were rescinded after Yeltsin's new prime minister, Sergei Kiriyenko, failed to follow-up on the aid promise with the Clinton White House, a lapse which seriously undermined Washington's confidence in Moscow's economic stability. After much coaxing by the oligarchs, Chubais agreed to head the international negotiating team tasked with saving Russia

from bankruptcy. He secured \$22.6 billion in aid from the IMF and other international institutions over the next two years.²⁴

Although such manoeuvres helped in the short term, they ultimately failed to bring the economy back on track owing to a phenomenon nicknamed by Western bankers the “Foreign Investor Exit Facility.” Instead of letting the Kremlin correct its cash-flow crisis and restore investor confidence in the Russian market, the foreign aid merely gave foreign investors more time to sell off their assets and holdings and quit the country altogether. By August 1997, capital was haemorrhaging from Russia. More alarmingly, the men who had become symbols for economic stability – Chubais and Sergei Dubinin, the chairman of the Central Bank of Russia – spent the worst part of the financial crash on holiday as the rest of the Yeltsin government acted as if nothing had gone wrong.

In the first eight business days of August 1998, the Central Bank of Russia lost \$300 million per day.²⁵ On August 11, SBS-Agro and Inkombank defaulted on a margin call, creating a ripple effect that hit a series of other banks to which those two giants were linked by mutual loans. Ordinary Russians began withdrawing their cash en masse as the Central Bank estimated that it would need \$1 billion to keep the rouble within its 6.2 to 1 ratio to the dollar.²⁶ As pleas to devalue the rouble poured in from commercial banks, Yeltsin refused to adjust the Russian currency.

By the end of the crisis, the Russian government was compelled to implement three emergency measures: a moratorium on commercial debt repayment, a default on domestic debt and the devaluation of the rouble. The IMF criticised Chubais for not instituting taxation and budgetary reform before the crisis struck. IMF managing director Michel Camdessus even threatened to expel Russia from the body’s membership; he only agreed to support the

troika of emergency measures after sustained lobbying by the US government. Russia returned to Soviet-style austerity, including the all-too-familiar sight of long queues on cold city streets. About \$13 billion of government debt affected by the default was owned by foreign investors. Long-Term Capital Management, a Connecticut-based investment fund, nearly collapsed. By the time the market re-stabilised, Western banks that had bought Russian currency recouped a mere three to five cents on the dollar.²⁷ The impact on the general public was even more intense and immediate: retailers lost thousands of dollars in a week, with even the price of a cup of tea varying wildly throughout the course of a given day. Many burgeoning small-businessmen scrambled to exchange their increasingly worthless roubles for US dollars.

The average Russian’s response was characteristic of a people accustomed to disappointment and pessimism. Rather than reject the economic reforms of shock therapy, they rejected the reformers. “We trusted the promises of our government and of our Central Bank,” a 35 year-old accountant told Chrystia Freeland. “They said: ‘Trust the commercial banks, put your money there, they will pay you higher interest.’ Now I will never trust a Russian government again. I only trust the International Monetary Fund. Why can’t they send us some intelligent Western government and send our own ministers to some desert island?”²⁸

The crash destroyed the oligarchs’ bank holdings, although their industrial ones remained intact, giving them the leverage for one last political regrouping. The interregnum between the end of Yeltsin’s reign and the beginning of Putin’s was marked by bitter factionalism and a manic-depressive governing style. Berezovsky was run out of the Kremlin by Yevgeny Primakov, one of the five prime ministers Yeltsin appointed in a two-year merry-go-round of cabinet replacements. Berezovsky later

rejoined the Kremlin as a political strategist, while Primakov was expelled.

Berezovsky and Khodorkovsky founded a new party called Unity, which merged with its onetime rival, Fatherland-All Russia in 2001 to form Putin and Medvedev’s current political party, United Russia.²⁹ Berezovsky lobbied for the presidential candidacy of Vladimir Putin, the newly appointed prime minister and former director of the FSB (successor to the KGB), and transformed him into a media darling overnight. Berezovsky’s ORT also worked concurrently to smear the reputations of Putin’s rivals, namely Yevgeny Primakov and Yuri Luzhkov, the mayor of Moscow. Despite Putin’s warning that “[those] who have money shouldn’t control society... the oligarchs must not, and have no right to influence government decisions,”³⁰ the oligarchs were convinced that Putin was their man. His inscrutable persona and intense personal loyalty, demonstrated during his tenure in the office of St Petersburg mayor Anatoly Sobchak, were invaluable commodities to a cabinet riven by internecine treacheries. Yeltsin’s support for Putin is likely to have hinged on the latter’s willingness to bury the crimes of the “Family.” As president, Putin’s first official act was to grant Yeltsin and his allies legal immunity from prosecution.

Ultimately, Russia’s “second revolution” was betrayed, too. Neoliberal principles and the hard work of institution-building were compromised for the sake of political expediency and get-rich-quick schemes for a lucky few. The result was a Frankenstein’s monster of Soviet-style bribery and the most avaricious tendencies of unregulated capitalism. In this climate, it was hardly a surprise that ordinary Russians beaten down by the disappointments of the crazed 90’s would seek a strong leader to save them from economic hardship and restore a sense of certainty and order in their lives. Vladimir Putin easily cast himself as the right man for the job.

THE STRONGMAN COMETH: THE RISE OF VLADIMIR PUTIN

When Boris Yeltsin decided to step down in 1999, just a few months prior to the 2000 presidential elections, he appointed his prime minister, Vladimir Putin, as acting president. Yeltsin insisted that “the new century must begin with a new political era—the era of Putin.”³¹ Putin—a former KGB operative stationed in Bonn and the grandson of Stalin’s cook³²—took power at time when Russia was suffering a severe crisis in national confidence.

Not much was known about Putin by anyone outside rarefied political circles, but within just a few months this rather nondescript apparatchik had cultivated a messianic aura as the one true saviour of an exhausted and ruined Russia.

Putin would restore Russia’s self-confidence through the promotion of a version of nationalism which combined certain Slavophile tropes adopted by Stalin during and after World War II with an increasingly explicit nostalgia for the Soviet Union itself; a hybridisation embodied by Putin’s 2005 remark that the collapse of the old system was “the greatest geopolitical catastrophe of the 20th century.”³³ Putin moved quickly to promote

his own personality cult complete with socialist realist depictions of his anointed role as restorer and rebuilders. As early as 2000, the following sentence appeared in a popular Russian children’s textbook: “Putin had so many friends—the entire country of Russia—and they elected him president. Now everyone says: ‘Russia, Putin, Unity!’”³⁴



Boris Yeltsin thanks Vladimir Putin for his services—RFE / RL

Despite his retrograde rhetoric, Putin initially committed to a programme of reform, promising to build a law-abiding state, lower bureaucratic barriers, allow private investors to contribute to the economy, develop small and middle businesses and tackle social ills (alcoholism, poor health). Putin declared a “dictatorship of the law” as the guiding principle of his presidency, already an implicit nod to the Leninist notion of the

dictatorship of the proletariat. He also introduced a number of necessary and welcome economic reforms, including a flat tax to encourage retailers to abandon the black market; legislation that allowed for the private ownership of land; and the repayment of foreign loans using the revenue created by high oil prices.

At the same time, Putin’s governance was increasingly defined by the type of authoritarian measures rooted in his KGB past. He installed a coterie of loyalists in the Kremlin, drawn from the ranks of the FSB as well as from the tight-knit milieu from his days in the St Petersburg mayoral office. This new elite became known as the *siloviki*, or “strongmen.”

By the time Putin’s first term in office ended in 2004, the secret services and military comprised an estimated 25 per cent of senior governmental posts, up by nearly 15 per cent from the Yeltsin era.³⁵ The *siloviki* were united in their belief that the privatisation programme of the 1990s had been disastrous, and that the new government should recapture control of Russia’s strategic industries.

KREMLIN, INC: PUTIN AND THE OLIGARCHS

On 28 July 2000, Putin invited Russia's most important oligarchs to a meeting at the Kremlin, at which he made it clear that he would not reverse the privatisation efforts begun in the 1990s, but only in exchange for the oligarchs' promises to stay out of politics.³⁶ Monopolistic practices would be allowed to continue so long as the monopolists didn't use their wealth to undermine the new president. While some oligarchs consented to this quid pro quo arrangement, others were unwilling to cede their political influence. In fact, some had actually become politicians: Boris Berezovsky was now a deputy in the State Duma (the lower house of Russian parliament) and, despite his early support for Putin, quickly bristled at these newfound restrictions.

After learning that the Kremlin was paying deputies bribes of \$5,000 to vote to restructure the Federation Council (the upper house of Russian parliament), in the summer of 2000 Berezovsky reportedly offered the deputies \$7,000 to vote against the proposal.³⁷ According to many observers at the time, Berezovsky had expected to continue to operate from behind the scenes; when Putin would not allow him to do this, he began to challenge Putin openly. The starkest manifestation of that challenge occurred during the government's horrible mishandling of the Kursk submarine disaster of August 2000. Berezovsky's media empire went to work exposing the lethargic and incompetent Kremlin response to a national crisis, a provocation that eventually led the government to accuse Berezovsky of embezzlement and fraud. Berezovsky left the country for exile in London in 2001 where he continues to live today. His holdings were sold to still-loyal Putin allies Roman Abramovich and Oleg Deripaska.³⁸

This new merger between

Kremlin and oligarchic interests reaffirmed the existing culture of opacity and impunity in Russia's business community with an added innovation: public servants themselves became the new oligarchs, handed profitable directorships of remaining state enterprises or renationalised private ones. Today, Russia's most powerful businesses are stacked with either Kremlin officials or individuals with close ties to the Kremlin. For example, Gazprom-Media, which includes Berezovsky's former holding



Boris Nemtsov, joint leader of opposition bloc Party of People's Freedom, speaks during a news conference in Moscow – Reuters

ORT, was acquired by Rossiya Bank in 2005 for just \$166 million. Rossiya Bank's chairman is Yuri Kovalchuk, a long-time associate of Putin.³⁹ Even at the regional level, local United Russia politicians are found to have relatives with no prior commercial experience in charge of hugely profitable enterprises. Civil servants, who officially make five-figure salaries, are found to be the owners of multi-million dollar dachas, or wearing luxury watches that would cost half their yearly earnings.

Alexey Navalny, a prominent anti-corruption campaigner, has dedicated himself to exposing the laughably

undisguised thieving at the heart of Russia's state capitalism. Navalny's website RosPil routinely uncovers bogus government contracts, and reveals how the relatives of top government officials often control big businesses. For example, the former governor of one oil-rich province – who spearheaded the conglomeration of companies in that province – named his son to run the conglomerate. The governor of another region has a 22 year-old niece who owns a major stake in a multi-million dollar pipe factory.

Another governor's 18 year-old daughter owns a plywood mill and local businesses. As Navalny put on Russian television, assailing a member of United Russia directly: "How does all this wonderful entrepreneurial talent appear only in the children of United Russia members? What business schools did they attend?"⁴⁰

Navalny noticed that Transneft, the state oil-transport monopoly (which has the Russian energy minister as chairman of the board), had claimed to donate \$300 million to charity in 2007; a sum equal to more than 10 percent of Transneft's profits that year. As a shareholder in Transneft, albeit a small one, Navalny asked to see the list of philanthropies Transneft

supposedly made such a substantial donation to, but his request was denied. He then asked the Russian Interior Ministry to open a criminal investigation, but when Transneft refused to provide testimony, the case was closed. When Navalny appealed to the court, the detective in charge of the case claimed to have lost the case materials.⁴¹

Boris Nemtsov, former deputy prime minister under Yeltsin and a currently a leading opponent of the Putin regime, has published a five-part series of white papers, co-authored by Vladimir Milov, exposing the economic, political and cultural deficiencies of Putinshchina.

In one paper, Nemtsov and Milov analyse the style and breadth of Russian corruption and name names belonging to this occlusive class of beneficiaries. “There remain too many other unpleasant questions to be asked of Putin and his entourage,” Nemtsov and Milov have written. “Who is the real co-owner of Surfugtneftegaza, Megafon, Sky Link,

Roman Abramovich’s Millhouse, and the powerful oil trader Gunvor? Can it really be that some Danish, Swedish, Finnish and Chukotsk businessmen have come to own a good half of Russia without sharing with Putin?”⁴² Indeed, international analysts estimate that Putin’s own net worth hovers somewhere between \$20 to \$40 billion, despite

an official annual salary and military pension amounting to around \$148,000.⁴³ If true, this would make him one of the ten wealthiest men in the world. Yet here is what is publicly disclosed as Putin’s real estate holdings: “a 77m² flat, a small plot of land, and a garage.”^{43a}

THE YUKOS AFFAIR: THE PRICE OF DOING BUSINESS IN PUTIN’S RUSSIA

The state-sponsored prosecution of Yukos Executives Mikhail Khodorkovsky and Platon Lebedev and the expropriation of the company by the state was a watershed moment in the assertion of Putinism as the operating framework of the Russian government. Yukos was a state-owned oil company purchased at a knockdown price by Khodorkovsky during the loans-for-shares scheme of the mid-90’s. Initially, Khodorkovsky’s management of the company was just as unethical as his fellow oligarchs, but between 1999 and 2000, Khodorkovsky executed a dramatic volte face, and Yukos became the first Russian company to adopt Western standards of corporate governance, transparency and shareholder rights. The measures were adopted in the hopes of securing the company’s fiscal future, attracting Western investors and transforming the company into a global operation, and met with astonishing success. Yet Khodorkovsky’s success was not welcomed by all: Yukos was targeted by the elements of the Kremlin’s inner circle who sought to renationalise key industries, but realised that the state could not do this outright without severely undermining

the country’s business prospects. Yukos proved of particular interest for two reasons: the massive value of the company and the increasingly strident, anti-Putin political activities undertaken by Khodorkovsky.

In July 2003, Platon Lebedev, CEO of Yukos’ holding company Group Menatep, was arrested on a troika of trumped-up charges.



Mikhail Khodorkovsky and Platon Lebedev wait in the court dock in Moscow — Oleg Nikishin/Getty Images

At the time, Khodorkovsky was engaged in negotiations with Chevron and ExxonMobil for a deal to sell a minority stake to an American partner in return for investment, technology and expertise. However, at an October meeting at the Kremlin between Putin and ExxonMobil Chairman Lee Raymond, Raymond told Putin that another potential deal had been mooted in which a majority stake of Yukos would be sold to ExxonMobil. The prospect of an

American company owning a controlling interest in Russia’s second largest oil-producer was not one that Putin was willing to tolerate. Within a few hours of the meeting, the Kremlin ordered raids on Yukos’ offices and announced that it held evidence of tax evasion by the company. On the 25 October 2003, Khodorkovsky was arrested by FSB agents who boarded his private jet at Tolmachevo airport.

The Prosecutor’s Office froze 44 per cent of Yukos’ shares—the first time that private assets on this scale had been interfered with by the post-Soviet state. The action sparked fears of a stock market crash and the withdrawal of international investment, and provoked alarmed protests from Western government representatives and business leaders. The

state increased its charges against Khodorkovsky and Lebedev to multiple counts of fraud and theft through corporate accounting schemes which Yukos, in common with almost every other large-scale Russian company—had employed to minimise their tax liability.

Khodorkovsky and Lebedev’s trial commenced in 2004, and consistently failed to meet international standards of justice. On 31 May 2005, the two executives were found guilty of

six of the seven charges levelled against them and sentenced to nine years imprisonment in a Siberian Labour camp.⁴⁴ Shortly before Khodorkovsky and Lebedev would have become eligible for parole—at a time inconveniently close to the 2008 Presidential elections—new charges were lodged and new trials held in 2009; in 2010 the two men were sentenced to an additional six years in prison.⁴⁵ Both men have been designated prisoners of conscience by Amnesty International, and Khodorkovsky has emerged as one of Russia's more unlikely dissidents.

The government bled Yukos dry, holding out the prospect of a financial settlement and

then increasing their demands. Although the apparent political motivations behind the Yukos affair sparked international outrage, Putin was able to use the issue to great effect as a populist rallying cry against the deeply unpopular oligarchs in the 2004 presidential campaign. The siloviki's grip on power was cemented in February 2004, when Putin fired his liberal prime minister, Mikhail Kasyanov—one of the last voices in government objecting to the type of illiberal tactics displayed during the Yukos affair. In 2004, the Kremlin forced the auction of Yukos' most important subsidiary, Yuganskneftegaz, and then purchased the company through a front rather than re-nationalise

it outright. On 1 August 2006, a court order formally declared Yukos bankrupt and order the liquidation of all assets. Several cases have been brought against the Russian government in various international courts, and several have affirmed the violation of the rights of the accused and a fundamental lack of due process throughout the affair.

The expropriation of Yukos was a decisive win for the siloviki, bringing strategic assets back under state control and inaugurating new opportunities for graft and patronage by political officials. Far from eliminating the oligarchs, the Kremlin bought them out and made them the servants of state capitalism.

“ORTHODOXY, AUTOCRACY, NATIONALITY”: THE CULTURE OF PUTINISM

Russian media has been increasingly restricted since Putin took office in 2000. Television, where the majority of Russians get their news, is almost entirely state-owned, and newspapers have been persecuted through pseudo-legal measures to restrict their content and enforce a culture of self-censorship. The internet remains relatively free, but only because Russia has lacked the technological capacity to effect a Chinese-style crackdown on web content through a government firewall—although providers are required to install a device that diverts internet traffic through an FSB terminal.⁴⁶

Today, Russia is one of the least safe countries for journalists worldwide: between 2000 and 2009, 17 reporters investigating corruption across Russia's political and economic establishments were killed, a statistic matched only by the Philippines and Iraq.⁴⁷ In one of the most disturbing episodes, Anna Politkovskaya, the famous war correspondent and anti-Putin reporter for independent

newspaper *Novaya Gazeta*, was murdered in the lift of her apartment block. Although three men were eventually charged for her murder, all three were acquitted under extremely suspicious circumstances.⁴⁸



A shrine for murdered journalist Anna Politkovskaya
— AP

Pseudo-legal manoeuvres have been the Kremlin's preferred way of eroding Russia's short-lived experiment in civil rights and political freedom: the favoured tactic of the hypocritical authoritarian state. Laws have been passed which heavily compromise the foundational civil rights enshrined in the Constitution of the Russian Federation, including freedom of the press, freedom of

speech and freedom of assembly. For example, in September 2003, State Duma deputies and journalists petitioned the Constitutional Court to overturn a series of clauses in the voters' rights law that restrict the media's ability to carry out objective reporting during the Duma campaign. The Duma Deputies and journalists argued that the legislation was limiting their ability to fulfil their professional duties.⁴⁹

Political plurality and free association have been subjected to similar constraints. Opposition demonstrations are routinely—and violently—dispersed by the riot police (known as OMON) and anti-Kremlin activists are repeatedly and arbitrarily imprisoned simply for turning up. New political parties are frequently denied registration due to supposed technical “errors” in their applications. The current statute requires two million signatures from at least 40 of Russia's 83 provinces in order to successfully apply for party registration.⁵⁰ One party recently denied registration, the

People's Freedom Party, is headed by former prime minister and leading liberal politician Mikhail Kasyanov—hardly a fringe figure. Instead of allowing Kasyanov to freely participate in the political system, the Kremlin has instead constructed Potemkin “opposition” parties such as the new Right Cause, the leader of which, the billionaire Mikhail Prokhorov, was recently taken to task for daring to exert actual control over his own party. Prokhorov accused the Kremlin of attempting a “hostile takeover” of Right Cause and resigned as party chairman on September 15 of this year. In a blog post titled “Game Over,” posted the following day, he forecasted a fate for himself and his associates similar to that which befell Khodorkovsky: “I already know that they will try to create problems for me. They will crush us in a tough and uncompromising way. I am ready for this.”⁵¹ Eight other parties were also determined not to be viable contenders this year for either the forthcoming parliamentary or presidential elections. The vote threshold for sending candidates to the Duma is a prohibitively high seven percent, although President

Medvedev – now a lame duck slotted to become prime minister – has announced plans to lower this figure to five per cent.⁵²

Rather than ban political competition outright, the Kremlin prefers its usual tactic of retaining the pretence of the democratic process whilst securing a fixed result. Electoral irregularities are commonplace, and are expected to be repeated in the upcoming parliamentary and presidential

“I already know that they will try to create problems for me. They will crush us in a tough and uncompromising way. I am ready for this.”

elections. That’s only the outward appearance of the current Russian political system. Internally, the Kremlin is as divided into clans and factions today as it was during the Bankers’ War – only now, these clans are ruled by a more dangerous combination of ex-KGB officials and new-minted state corporatists. (Medvedev became president after ceding his chairmanship of Gazprom.) As with Hezbollah’s “deep state” in Lebanon, the siloviki all control their own arms of state

bureaucracy and law enforcement, any of which can be marshalled into action for retributive purposes against a personal enemy or rival interest.

As ever, authoritarian tactics inevitably become self-perpetuating by necessity: if the current rulers were to relinquish power, their lives and freedoms would almost certainly be at risk. One popularly bandied reason that Putin has recently announced he will return to the Russian presidency (no Russian or Western media outlet bothers about the formality of his re-election to that post any longer) is that if he were to retire from public office, he would likely be prosecuted or killed by an antagonist silovik. Ironically, Putin first

ran for president on a platform of shoring up the rule of law, yet his tenure in office – both as president and prime minister – has only cemented Russia’s reputation as a society of lawlessness. By 2008, Russia had become the country with the most complaints submitted to the European Court of Human Rights; the government has lost over 90 percent of those complaints heard.⁵³



The Kremlin—CORBIS

TOTALITARIAN REDUX: HOW NOT TO REMEMBER STALINISM

Liberalisation was never going to be a hallmark of a leader so infatuated by the totalitarian past. In December 1999, then newly appointed prime minister, Putin reinstated a plaque of Yuri Andropov, the feared KGB chief who persecuted Soviet dissidents in Lubyanka Square following its removal during the attempted Communist hardliner coup against Mikhail Gorbachev in 1991. The plaque was only the beginning: the rehabilitation of Andropov and of the broader “Sword and Shield” legacy of the Stalinist secret police has become a cultural by-product of Putinism. In 2004, to mark the 90th anniversary of Andropov’s birth, schools were renamed for him, a 10-foot statue was unveiled, adulatory pseudo-histories of his KGB leadership were published, and celebrations were held in his hometown Nagutskaya.

Such gestures are indicative of Putin’s unwillingness to honestly confront Russian history. Soviet state security archives remain mostly closed and those that had been opened in the 1990s as part of a half-cocked lustration process have now been re-shuttered. Two million documents dated roughly between the Russian Civil War and World War II have been shown only to surviving family members of victims of Communist oppression.⁵⁴ The Moscow-based human rights group Memorial claims that de-classified documents from the Soviet Central Committee have been removed from the state archive at the behest of the Russian foreign intelligence service.⁵⁵

Article 23 of the 1993 Russian Constitution states: “Everyone shall have the right to privacy in correspondence, telephone conversations, and postal, telegraph, and other messages. Limitations of this right shall be

allowed only by court decision.”⁵⁶ The FSB has evaded this clear proscription against spying on or harassing Russian citizens by using top-down orders from security officers. In 2009, FSB Director Alexander Bortnikov increased the number of generals who could “initiate petitions to conduct counterintelligence measures that restrict the constitutional rights of citizens”; in other words, a license for unchecked wiretapping, surveillance and home searches, free of judicial oversight.

The KGB-isation of Russia has also featured czarist overtones of religiosity, evincing the outré marriage of Stalinist invigilation with



More than 50,000 members of the pro-Kremlin movement Nashi take part in an anti-corruption rally in Moscow, April 2011 – RIA Novosti

Russian Orthodoxy. According to Andrei Soldatov and Irina Borogan, authors of *The New Nobility: The Restoration of Russia’s Security State and the Enduring Legacy of the KGB*, “The alliance between the Church and the FSB seems quite logical: the FSB helped to protect the Orthodox sphere of influence against Western proselytizing; in return the Church blessed the secret service in its struggle with enemies of the state.”⁵⁷ FSB Lieutenant General Sergei Markov earnestly described his regiment as a “brotherhood of monastic knights who sacrificed their liberty, their blood, and their lives for Russia.”⁵⁸ The Orthodox Church has also worked closely with the FSB to prevent religious minorities from performing

missionary work, especially Catholics.

Putin’s presidency has proved poisonous for the education of younger generations of Russians who, judging by the announced return to the presidency, will have been born, raised and graduated into adulthood under the supervision of the one leader. Although Putinism is not an ideology properly defined, it does have certain ideological aspects. These attributes have been articulated and propounded by Vladislav Surkov, Putin’s chief of staff, who coined the term “sovereign democracy” to refer to the current political system and is the architect of Nashi, the ardently nationalist, pro-Kremlin youth movement reminiscent of the Soviet Komsomol.

Surkov has dubbed Nashi the “combat detachment of our political system,” and at a recent meeting with Nashi “commissars” (hardly a promising choice of title) instructed them to “train their muscles” in advance of the 2011-2012 elections, which Surkov made clear needed to be won by Medvedev, Putin and United Russia.⁵⁹ The annual Seliger Youth camp, hosted by the state’s Federal Youth Agency in the Khimki forest outside of Moscow and organised by the founder and former head of Nashi, is a similar example of this type of xenophobic ultra-nationalism. Photos of camp activities are shockingly redolent of the Hitler Youth. Typically on offer are books that promote Stalin as a war hero, “fifth column” prizes awarded to “liars, falsifiers and those who blacken our homeland’s reputation” and, perhaps most disturbing of all, “breeding tents” designed to facilitate the proliferation of ethnic Slavs.⁶⁰

KILL THE LAWYER: THE SERGEI MAGNITSKY AFFAIR

Alexander Litvinenko, Anna Politkovskaya, Sergei Magnitsky. All are names that have become synonymous with the deterioration of human rights in Putin's Russia (in Litvinenko's case, the rights were violated in a foreign country), killed for their refusal to keep quiet about their government's policies or its state-perpetrated theft. In Magnitsky's case, a \$230 million tax fraud, the largest in Russian history, manifested as more than just another episode of underpaid public officials skimming off the top – it led to the false imprisonment, torture and agonised death of an attorney who was punished for doing his job.

On 4 June 2007, a Russian Interior Ministry police unit raided the offices of Hermitage Capital Management, then the largest investment fund in post-Soviet Russia, as well as those of Hermitage's law firm, Firestone Duncan. The police unit, led by Lt Col Artem Kuznetsov, claimed to be investigating a possible tax fraud related to one of Hermitage's client's companies despite the fact that they had all had been regularly audited and paid their annual taxes in full. Vanloads of documents were hauled away from both raids, including the corporate seals of many of Hermitage's investment companies.

Magnitsky, a young lawyer at Firestone, was asked to investigate what appeared to be a tendentious case brokered on a mysterious court judgement passed against one of Hermitage's registered subsidiaries. Magnitsky discovered that the judgment had in fact been made after three shell companies had sued the subsidiary; the documents seized from Hermitage and Firestone's offices were used to forge retroactively dated contracts claiming that Hermitage

owed \$1 billion to the three shell companies, all of which had been registered by a convicted murderer named Viktor Markelov. The three shell companies had sued the subsidiary in three separate courts around Russia; bogus lawyers were hired by the subsidiary who then pled guilty to \$1 billion in liabilities. In December 2007, Hermitage filed a complaint with the three main law enforcement agencies in Russia which mapped out the intricacies of the fraud.

In response, on 5 June 2008, Magnitsky received a letter which revealed that bank accounts had been opened in the three shell companies' names at an obscure Russian bank called Universal Savings. One of these accounts had received a \$230 million deposit – the precise figure of the tax liability Hermitage paid in 2006. The facts of the case became clear to Magnitsky: the phoney tax liability made it possible for the tax authorities to claim that Hermitage had turned no profits in 2006 and was therefore entitled to a substantial refund. The \$230 million was processed within 48 hours, on 24 December 2007, and wired to several banks in Moscow including Universal Savings, which was owned by Dmitry Kluyev, a convicted criminal, before leaving Russia to be laundered through several international banks. By February 2008, Kluyev liquidated Universal Savings. The Russian Interior Ministry would later claim that the bank's records had all been destroyed in a truck explosion.

In July 2008, Magnitsky and Hermitage filed several criminal complaints for the stolen \$230 million with several government agencies. The Interior Ministry responded by launching criminal investigations into all Hermitage's

lawyers at Firestone Duncan, including Magnitsky. Browder suspected that his attorneys were in severe danger and offered to relocate them to London at his own expense. Magnitsky refused to leave Russia, believing that he would be vindicated as a whistle-blower in due course. He testified before the Russian State Investigative Committee and named Kuznetsov, as well as his colleague Maj Pavel Karpov, as the orchestrators of the fraud. Within a few months, Magnitsky was arrested on the preposterous charge of acting as the director of two Hermitage companies that had allegedly failed to pay taxes in 2001 (he wasn't a director of either).

Magnitsky's case was overseen by Interior Ministry senior investigator Oleg Silchenko, who justified the arrest by alleging that Magnitsky was a flight risk to the UK. Magnitsky was subjected to physical and psychological torture in prison in an attempt to get him to confess to stealing the \$230 million and to implicate Browder in a massive tax crime. He was consistently refused medical care during his 358 days in jail and held in appalling conditions that were completely inconsistent with international human rights standards: prison cells without windows, floors covered with raw sewage, and lights kept on all night to induce sleep-deprivation.⁶¹

In July 2009, Magnitsky began to suffer from severe abdominal pains, and was diagnosed with "calculous cholecystitis;" it was recommended that he be transferred from Matrosskaya Tishina prison in Moscow to alternative facilities with emergency medical capabilities. In a letter to the head of the Interior Ministry's Investigative Committee, Magnitsky suggested that "with

Silchenko's participation or with his tacit approval, inhuman conditions were created for me in the detention centre, which humiliate human dignity... While in custody, situations have been created for me where I was deprived of the right to have a weekly shower, to watch television, to use a refrigerator, and simply to live under normal conditions..."⁶²

Instead, Silchenko had Magnitsky moved from Matrosskaya Tishina prison in Moscow to Butyrka—the infamous detention centre that under Stalinism served as a halfway house for political prisoners en route to the gulag. The Public Oversight Committee (POC), an independent prison monitor, reported that Matrosskaya Tishina officials justified the move on the basis of a planned prison renovation on Magnitsky's floor though they presented no evidence of any such renovation ever having taken place. Magnitsky was diagnosed with acute pancreatitis soon after his transfer on 13 November 2009 and was left without doctor's care for an entire weekend. When Butyrka's head doctor, Larissa Litvinova, returned on Monday, Magnitsky's condition had deteriorated to the extent that she requested his transfer back to Matrosskaya Tishina for emergency medical care. Litvinova's request was denied by the head of Butyrka.

Magnitsky died on 16 November 2009 while waiting to be treated for severe pancreatitis. He was handcuffed to a bed in an isolation cell in what could only have been excruciating pain for over an hour.

The prison authorities attempted to obscure their culpability for Magnitsky's death, claiming that he had suffered a heart attack, despite having documented his inflamed abdomen and the results of an echocardiogram administered before his death which did not substantiate that diagnosis. The Public Oversight Commission's concluded that "no medical help

was provided to Sergei Magnitsky in Matrosskaya Tishina when it was urgently required and for which purpose had been transferred from Butyrka Prison. An ill person in severe condition was effectively left without medical attention – for 1 hour 18 minutes – to die in an isolation ward."⁶³ Magnitsky's family were denied an independent pathologist to examine his body. Moreover, Moscow Morgue Number 11 claimed that because its refrigerators weren't working, the body would have to be transferred immediately to a different morgue. A traditional Russian wake was also prohibited by the Prosecutor's Office. When burying Magnitsky, his family saw signs of torture on the body.



Sergei Magnitsky—AP/Getty

Russia's New Times magazine would later uncover evidence that the FSB had worked with the Interior Ministry to frame and jail Magnitsky. The report also found that \$6 million was allegedly paid to the conspirators in this case.⁶⁴ The Russian police admitted that there was evidence of theft but rather than launch a serious investigation, they allowed Kuznetsov to oversee a cryptic investigation that led to token sentences of five years apiece handed down to Markelov and to a convicted burglar named Vyacheslav Khlebnikov in an "expedited procedure" closed to the public. Authorities continued, well after Magnitsky's death, to assert his guilt in the tax fraud.

The cover-up provoked widespread outrage in Russia. In March

2010, the Moscow Helsinki Group, a prominent human rights organisation, petitioned authorities to launch a proper investigation, naming specific individuals. Their petition was rejected. Russian inaction and the flagging attempts of civil society to secure redress prompted Browder—now permanently relocated to London—to launch a multi-national lobbying effort to convince democratic parliaments to impose sanctions and travel restrictions on 60 Russian officials involved in the conspiracy. The United States Senate is now floating a bill that would do exactly that, although its purview is not confined just to the Magnitsky case but has broader application to those foreign officials found to be guilty of "gross human rights violations" in any country. If passed, the Sergei Magnitsky Rule of Law Accountability Act would represent a cataclysmic shift in U.S. human rights policy.

The Russian Interior Ministry officially "closed" the tax fraud case in April 2011. According to one official, "Our investigation did not find anything criminal in the conduct of tax-service workers. They were confused."⁶⁵ Many of the officials involved in the fraud and persecution of Magnitsky were promoted or simply transferred to new jobs. Prison officials not in any way related to Magnitsky's incarceration or neglect were fired by President Medvedev as a cosmetic gesture at prison reform, only to then be hired by different facilities. Justice has yet to be visited upon the framers and murderers of Magnitsky and the entire affair, which has had an emotive and political impact similar to the assassination of Sergei Kirov in 1934 – an assassination orchestrated by Stalin as a means of curtain-raising the Great Terror – has become another wearying example of the fate of those who attempt to hold the system to account in Putin's Russia.

A TOP-HEAVY PETROSTATE: PUTIN'S ECONOMIC RECORD

While it is clear to many international observers that Putinism has been a largely negative and regressive political force, many still credit Putin with the positive economic changes that have occurred during his reign. Living standards and income have improved significantly under his tenure. The Russian economy grew from \$998 billion a year in 2000 to \$2.26 trillion in 2008. Productivity per person rose from \$6,798 in 2000 to \$11,698 in 2008 (at 2000 prices). The Russian population's disposable income (accounting for depreciation) grew from 6.5 trillion roubles to 38.2 trillion roubles in the same period. As a result, the Russian populace increased their spending on personal consumption by over 500 percent.⁶⁶ The number of billionaires in Russia has also risen dramatically: there were none in 1999-2000, and 53 by 2007, with a total net worth estimated at approximately \$282 billion.⁶⁷

These improvements tend to obscure some of the deep-rooted problems which have festered under Putin's leadership, signified principally by the facts that Russia has yet to build a solid middle-class or diversify its still energy-reliant economy. There are seven small businesses per thousand people in Russia and state-controlled oligarchs still disproportionately determine the country's GDP. The special treatment of Gazprom—not to mention the close ties between the Kremlin and its board—is a particularly egregious example of crony capitalism. Today, 11 of the 18 members of Gazprom's board worked in the St Petersburg mayoral administration, the privatised Port of St Petersburg Authority, other Petersburg companies, or the FSB. All have clear links to Putin.⁶⁸ Gazprom has thus become a state racket, controlling the fates of millions of

people beyond Russia herself, as demonstrated in the 2006 "gas wars" that the Kremlin waged against Georgia and Ukraine in retaliation for the "colour revolutions" that rocked those former Soviet republics.⁶⁹

The Kremlin's over-reliance on a petro-economy, and the failure to nurture entrepreneurship, has meant that the economic success enjoyed over the last decade has rested on quicksand. As Nemtsov and Milov warned in 2008: "Gazprom's capitalisation rose from less than \$10 billion in 2001 to \$350 billion today, despite the fact that its gas production has not increased while its costs and debt have risen threefold as it prefers to buy assets



Oil rig, Tyumen oil field, Siberia – AP

rather than to bring new deposits on line. What is this if not a bubble, a bubble that may burst with a very big bang?"⁷⁰

Six months after making this prediction, the bubble did burst when the global financial crisis hit. Russia suffered far worse consequences than the West and its neighbours. GDP shrank by 7.8 per cent in 2009 whereas eight of the 12 countries in the Commonwealth of Independent States (CIS) experienced growth. It became clear that the boom of the late 2000s was largely a consequence to \$140 billion in foreign speculative loans.⁷¹ When the oil economy imploded, those loans abandoned Russia as quickly as they had done in 1998. The economy also suffered a severe cash shortage, which devalued the rouble and led to

a collapse in production, investment and income.⁷² The decision to defend the rouble-to-dollar exchange rate resulted in over \$200 billion in gold and currency reserves being spent to plug the hole, to no effect.⁷³ Tellingly, one of the Kremlin's first responses to the crisis was to reduce the tax on oil companies, raise the energy tariffs, and increase the tax on individual salaries.⁷⁴

Putin and Medvedev effectively scuttled the one measure that might have led to short-term improvements in the economy following the crisis: taxing the oil and gas giants. In 2009, the government issued \$6 billion in tax breaks to oil companies and refused to raise

rates for Gazprom, which was absolved of \$4 billion in back taxes. Russia will also pay \$4 billion a year to rent the Sevastopol naval base, with the Ukraine getting paid in cheaper gas. (In contrast, the Americans pay \$800 million for their largest naval base on Okinawa and \$660 million for their base in South Korea). Gazprom will be compensated for this arrangement by being freed

of export tax on these deliveries, an arrangement estimated to yield a loss of \$40 billion to the Russian budget over ten years.⁷⁵ Like Yeltsin, Putin's government depleted its own coffers when it should have been replenishing them, with state businesses and their boards of directors are cosseted by the Kremlin as middle-class wage-earners are left to fend for themselves.

Putin's capital investments have also been foolhardy. In an effort to bypass Ukraine's gas pipe transit system – and thus undercut a main competitor and sometime political adversary – the Kremlin has earmarked \$25 billion to lay the so-called South Stream pipeline, projected to have a maximum transit capacity of 30 billion cubic metres of gas per year. That will not be enough

to obviate the Ukrainian pipeline, which carries 130 billion cubic metres per year directly to Europe.⁷⁶ Private companies beholden to shareholders and annual audits would no doubt have averted such a costly miscalculation.

The unsustainable nature of Russia's reliance on its energy market has been worsened by its failure to

invest in the type of infrastructure and practices which would secure the long-term health of the industry. Most natural gas reserves in the country are running to completion, with only one major new gas field, Zapolyarnoe, having been tapped since Putin came to power. Gazprom is also under-performing at a time when it needs to bolster its competitiveness due to an increase

in supply in the global natural gas market. Shale gas deposits in the United States and Poland continue to drive down gas costs. And Israel's recent discovery of two major gas fields off the Mediterranean coast, estimated to contain, respectively, 9 trillion and 18 trillion cubic feet of natural gas, is sure to bring prices down even further.⁷⁷

PEOPLE PROBLEMS: RUSSIA'S DEMOGRAPHIC AND HEALTH CRISES

Putin has failed to address the problems which threaten Russia's very survival—most significantly, the country's tremendously high mortality rate, estimated to be the fifth highest in the world. (The birth rate is terribly low, too, estimated to be 174th globally.⁷⁸) Russia is suffering from a toxic combination of alcoholism, drug abuse, and AIDS (the country is ranked 11th in the world for people living with HIV/AIDS).⁷⁹ The average male life expectancy is 59 years, equivalent to that of developing countries.⁸⁰ Sixty per cent of deaths in Russia are caused by cardiovascular diseases, indicative of a poor national diet and lacklustre medical care. Over 16 per cent of Russian men have health problems related to alcoholism, compared to 6.4 per cent in the UK and 5.5 per cent in the USA.⁸¹ The World Health Organisation also reports that over 1.83m Russians are believed to inject drugs, compared to 1.86m Americans, despite the fact that the USA population is roughly double that of Russia.⁸²

Regardless of its unmatched status as the "Sick Man of Europe," Putin's government has not undertaken any significant efforts to improve health services or increase its annual budgetary expenditures on medical care. Putin has largely responded to the health crisis with token gestures, such as dispensing cash bonuses to

women who give birth to a second child, and trebling the tax on beer (with its relatively low alcohol content) whilst raising the tax on vodka by a mere tenth—a measure which merely led to the increased consumption of heavily alcoholic spirits.⁸³

The failure to invest in health services has been mirrored in Putin's unwillingness to tackle Russia's deteriorating infrastructure. The quality and safety of Russian roads (recall Robert Conquest's late-Soviet

The average male life expectancy in is 59 years, equivalent to that of developing countries.

exchange) declined precipitously during Putin's presidency: road construction fell from an average of 6,100 kilometres per year to now no more than 2-3,000 kilometres annually. Moreover, the surfaces of most roads need major repairs every 14-15 years, and for a country that spans 11 time zones, it has just 49,000 kilometres of official highway, with less than half that length designated as Category 1 and 2 (i.e. 2 lanes or more).⁸⁴ This has severely hampered the transport of goods. Driving from downtown Moscow to the nearest port takes 48 hours on average when it ought to take 18. Yet despite these serious

hindrances on Russia's economic growth, in 2010 Putin halved the budget for maintenance, repairs and development of Russian roads.

Even Putin's touted virtues as an enforcer of Russian "sovereignty" and security do not withstand close inspection. Despite his infamous boast as prime minister in 1999, following the series of Moscow apartment bombings, that he would rein in Islamic terrorism — "If it's in the airport, then in the airport. You'll forgive me, but if we catch them in the toilet, we'll wipe them out in the outhouse"⁸⁵ — his presidency was soon met by two horrific hostage crises: the Nord-Ost theatre siege by Chechen separatists (2002) and the Beslan school massacre (2004)

in North Ossetia, both of which were arguably worsened by the security service's bungled responses. More recent acts, such as the Moscow Metro bombing in March 2010 and the Domodedovo Airport bombing in January 2011, have been executed on a grander scale and closer to the heart of Russian government. Moreover, the atrocity-laden military campaign was waged with untrammelled brutality in Chechnya has nominally ended with the installation of the notoriously cruel, rebel-turned-Kremlin-puppet Ramzan Kadyrov as President—hardly a promising future to bequeath to this war-ravaged region.

THE BEAR BITES BACK: FOREIGN POLICY UNDER PUTIN

The troubling turn of Russian foreign policy under Putin has demonstrated the truism that oppressive domestic policies almost always engender aggressive foreign policies. The move towards a more belligerent and paranoid foreign policy is partly the cynical calculus of the neighbourhood bully, and partly symptomatic of the identity crisis which continues to afflict post-Soviet Russia. From the deterioration in US relations to the revival of revanchism towards Russia's "near abroad," foreign policy under Putin has taken on a wearisomely familiar, and increasingly disturbing, aspect.

Russian-American relations have changed from the warmth of the 1990s to the frosty relations of the later days of the George W Bush administration—a state of affairs which has largely remained in place. After a period of cooperation following the beginning of the Afghan War, relations with the US broke down most noticeably over the Iraq War. Putin parlayed his consistent opposition to the controversial war into diplomatic kudos, yet the evidence suggests that his stance was far from principled: the toppling of Saddam Hussein's regime threatened to derail lucrative oil contracts between Russia and Iraq, not to mention the kickbacks accepted by Russian officials from the infamous "oil-for-food" programme.⁸⁶ The fallout between the two countries over Iraq coincided with the continued introduction of new despotic measures by Putin, and the soured relationship between the American President and Putin seemed to make the US increasingly willing to criticise the Kremlin openly for its human rights abuses and bullying behaviour in their near abroad.

The inauguration of Barack Obama in 2009 raised hopes of a

rapprochement between Russia and the US. The new American President's faith in his ability to repair diplomatic relations was the basis of his much-vaunted Russian "reset" policy: in reality, this amounted to a tacit agreement by the US to ignore Russian oppression at home and aggression abroad in the hopes of securing cooperation in countering Iranian nuclear proliferation. As a concession to induce Russian cooperation, the US not only stopped pressing the country substantially on human rights issues, but also reneged on a plan to install a missile defence shield in Eastern Europe—essentially abandoning the stalwart former-Eastern bloc countries who stood with the US throughout the most difficult days of the War on Terrorism, and demonstrating the effectiveness of Russian bullying.

Touted achievements of the "reset" policy include Russia's cancellation of its sale of S-300 air-defence air to Iran and its support of tougher US-imposed sanctions against the mullahs—yet these measures have had little practical impact in dealing with Iran's nuclear proliferation. In fact, the decree banning Russia's sale of the S-300 air defence system to Iran carried a clause allowing Moscow to rescind the entire proposal at any point in the future if it saw fit. Russia continues to outfit Iran with other kinds of advanced weaponry, and conducts business with Iran's oil and gas sectors, in contravention of international sanctions.

Although Russia has helped NATO efforts in Afghanistan by allowing easy passage through the northern supply corridor for air shipments, Moscow has concurrently pressured former Soviet republics in Central Asia not to assist the US and NATO effort in Afghanistan—for instance, leaning on Kyrgyzstan to close its American military base.

Russia demonstrated a retrograde paranoia about the power of NATO by consistently attempting to stymie the alliance by regularly carrying out provocative bomber flights in NATO territories. Boris Nemtsov has described this fixation as a consequence of "non-professionals with Soviet instincts ... coming to power."⁸⁷

The Kremlin's treatment of the USSR's former satellite states in Eastern Europe and the former Soviet Republics has become steadily more worrying over the past decade. The 2008 Russo-Georgian pushed the trend of Russian interference in its near abroad beyond energy-related blackmail to naked revanchism. In fact, Russia continues to stand in violation of the European Union cease-fire signed at the close of the 2008 conflict in Georgia, continuing its military occupation of sovereign Georgian territory and retaining its de facto annexation of Abkhazia and South Ossetia.

Putin has consistently supported authoritarian figures in the region willing to follow the party line set by the Kremlin, and done his utmost to dismiss and undermine popular pro-democracy movements in the region, including Europe's "last dictator," Belarussian President Alyaksandr Lukashenko. The Kremlin's meddling in Ukrainian politics is well known – extending even to the suspected poisoning of the former Ukrainian President Viktor Yuschchenko during his 2004 presidential bid – and has effectively overturned the democratic progress made in the 2005 Orange Revolution. In retaliation for the Ukrainian people's refusal to accept the fraudulent election results of 2005, Russia demanded that country pay market rates for its usually-subsidised natural gas, and briefly cut of the gas pipeline until the Ukrainian government acceded

to their pressure. This tactic has been repeated against countries including Belarus and Georgia when they have failed to toe the Kremlin line, and remains a tacit threat underpinning relations with countries such as Germany, who depend on Russia for a considerable portion of their energy needs: for instance, Germany imports an estimated 37 percent of its gas supplies from Russia.⁸⁸

The other colour revolutions in formerly imperial holdings have similarly been quietly undermined by the exigencies of living in Moscow's neighbourhood. Indeed, it does not appear to be a coincidence that the former Soviet republics saw their freedom rankings decline sharply between 2000 and 2010, according to a recent report by the US-based human rights monitor Freedom House.⁸⁹ This includes Ukraine, which declined from a "free" status in 2005 to "partly free" in 2010 due to the policies of Kremlin ally Viktor Yanukovich.

The pro-Kremlin youth movement Nashi was set up in 2005 in response to the pro-democratic colour revolutions then sweeping the Caucasus, and has been responsible for all manner of Kremlin mischief in the years since its founding. In 2007, Nashi fomented nationalistic furore over the removal of a Soviet World War II memorial from a busy intersection in Tallin, Estonia—an act presented as an insult to Russian pride. In fact, the memorial was relocated to a nearby veterans' cemetery. Nevertheless, Nashi intimidated and harassed ethnic Estonians in

Russia, and, according to the New York Times, "Nashi laid siege to the Estonian Embassy in Moscow, throwing rocks, disrupting traffic and tearing down the Estonian flag. Nashi members, including the group's leader, Vasily G. Yakemenko, accosted Estonia's ambassador, Marina Kaljurand, at a news conference in early May. Her guards had to use pepper spray to defend her."⁹⁰ The Russian Federation Council—completely dominated by Putin's United Russia Party—called this act by an independent EU country an "attempt to legalise fascism."⁹¹ Estonia was then subjected to cyber-warfare that shut down its mainly electronic government and froze its internet



Vladimir Putin watches a military exercise— Itar Tass/Reuter

commerce for a full day, costing the country millions. Many of the hackers' ISP addresses were traced to offices inside the Kremlin.⁹²

Russia's policy in relation to Iran has been decidedly unhelpful to those members of the international community seeking to rein in the Islamic Republic's nuclear ambitions. Russian exports to the Islamic Republic increased from \$250 million in 1995 to more than \$3 billion in 2008.⁹³ Despite the West's justified insistence that an Iranian nuclear bomb would pose an enormous threat to international security and Mideast stability, the Kremlin seems unperturbed: "Iran is

a mania with the Americans; it's not our problem," one advisor to Putin said in 2009.⁹⁴ The Bushehr nuclear reactor in Iran would not have been built without Russian scientific assistance, and Putin himself has laughably denied that there is any evidence that Iran is seeking a nuclear weapons programme. Counterpose this breezy attitude to a messianic theocracy's acquisition of WMD to Putin's fiery polemics against Islamic terrorism at home and his brutal campaign in Chechnya. The Kremlin also has not shied away from facilitating radical Islamists in the Middle East—provided there is a profit to be made. Earlier this year, militant groups Hamas and Hezbollah have been found with Russian-made weaponry such as the laser-guided Kornet anti-tank missile, apparently smuggled into Gaza and Lebanon through Syria. Israeli intelligence claim Russian weaponry is routinely sold to Syria and Iran, who then distribute the materials to their Hamas and Hezbollah

proxies—clearly contributing to the ongoing strife afflicting the Middle East.

Putin's warm relationship with tottering Arab autocrats and their proxies is taken for granted to such an extent that any question of supporting UN Security Council sanctions against the Assad regime would be considered fanciful. This is one of the reasons why Russian flags are being burnt alongside Iranian and Chinese ones in Syria by pro-democracy activists, and why Putin and Medvedev are regularly singled out for denunciation by the Syrian protestors.

CONCLUSION

“Vertical power”, “dictatorship of the law”, “sovereign democracy”—these euphemisms underscore the Kremlin’s favoured tactic of coating authoritarianism with the patina of pseudo-democracy and pseudo-legality. Hypocrisy is the compliment vice pays to virtue, and Russia under Vladimir Putin and the Putin-Medvedev “tandem” (another coy euphemism) has increasingly become a country in which this is accepted as standard practice.

This was by no means inevitable. Poor decisions, half-measures and inept leadership in the post-Soviet period, characterised by insufficient attention to the passage of vital laws and the building of key democratic institutions, bungled Russia’s transition from a command to a free economy. Crucial errors in the first post-Soviet decade laid the foundation for the revival of Brooks Brothers czarism under Putin, who now aims to return to power in 2012. With new Constitutional “reforms,” he will likely remain in office until 2024, almost meeting Stalin’s quarter-century mark for nakedly undisputed dictatorship.

A survey of the two decades following the collapse of the Soviet Union reveals as many missed opportunities as inevitable pitfalls. At a time when much of the Arab world is seeking to transition from authoritarianism to democracy, the lessons of the Russian example are particularly timely; and with almost two decades past since the collapse of the Soviet Union, the developments of this period should give the Russian people—and the international community—pause.



Putin and Medvedev Matryoshka dolls—Reuters

“Crucial errors in the first post-Soviet decade laid the foundation for the revival of Brooks Brothers czarism under Putin, who now aims to return to power in 2012.”

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