

Sergey Chemezov's “Russian Vacuum Cleaner”

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¹ 'Putin's cronies' tend to be in the news over their 'immoderate lifestyles', the shock revelations being usually about palaces, villas, land holdings, yacht collections, vintage car fleets, fur coat depositories, offshore accounts and multi-billion dollar fortunes (all, no doubt, acquired by back-breaking toil in the galleys of government service). In other cases, the luminaries of the Leader's inner circle themselves rile the public with sensational revelations about, for example, the 'Cheka hook' which supposedly saved post-Soviet Russia from hurtling into the abyss.

Sergey Chemezov, CEO of the *Rostec* (formerly Russian Technologies) state corporation, shuns the limelight. He does not boast of dining on wood grouse with the tsar, or lecture the population on patriotism. He is rarely seen on television unless protocol requires it, and then prefers to say nothing, limiting himself to his trademark smile of an experienced recruiter. This does at least testify to intelligence, tact, knowing his place in the Kremlin power vertical, and an ability to mask his ambitions.

Nonetheless, Chemezov is not just close to the First Person in the state but has known and been on friendly terms with him for three decades. In the unwritten table of ranks he is on the highest level as a member of Putin's unofficial politburo. Since 2001, he has been mentioned as a potential governor of Irkutsk province, prime minister, FSB director and even, in 2007, Successor.

The Fruits of a Happy Marriage

In 2014 (tax returns for 2015 are yet to be published), Sergey Chemezov's official income was 123,484,000 rubles, over two times more than in 2013. His property is listed as including three plots of land totalling just under 7 hectares (about 17 acres), three residential buildings (with, respectively, a floor area of 1,673 m², 513.3 m² and 202.2 m²), an apartment (385.6 m²), a garage (182 m²), non-residential premises of 390.3 m² (one quarter ownership share), and ten non-residential business properties with a total area of 1,226 m². The head of *Rostec* also has the use of an apartment of 259.7 m². There is a fleet of cars. The tax return records a number of vintage cars: a GAZ-13 Chaika, the limited-edition limousine reserved for only the very top Soviet officials; the legendary Soviet ZIL-410470 for members of the Politburo; and a Cadillac Eldorado, one of the most expensive American prestige cars from the three-door range of personal luxury class Cadillacs. Additionally, there are a Mercedes-Benz 280 SL light sports car (also vintage: it has been out of production since 1971); two all-terrain vehicles (an Arctic Cat 650 Pro and Polaris Ranger RZR quad bike); two snowmobiles (a Ski-Doo Skandic SWT 500F and a Lynx Yeti Pro V-800 Army); a snow and swamp-going Yamaha YXZ700F Rhino; a legendary Harley-Davidson FLHTCUTG Tri Glide motorcycle, a VTZ-2048A tractor; and a trailer. The return mentions also a Russian-produced Lada Kalina and Lada Ellada electric car, samples of which, apart from Chemezov, are owned only by the Russian Minister of Industry and Trade, Denis Manturov, and King Abdullah II of Jordan.

The total income of the Chemezov family in 2014 was 2,250,139,000 rubles. Of this, 2,126,000,000 rubles were contributed to the family piggy bank by the main breadwinner, Yekaterina Ignatova, Chemezov's second wife, whom he married in 2004. She owns a lot more land than her husband, namely six holdings totalling just over 26 hectares (about 64 acres). In 2014, the wife of the head of *Rostec* took possession of a building with a floor area of 4,442.5 m². As far as her car fleet is

¹ This paper was written for the Russian Service of Radio Free Europe / Radio Liberty. It can be accessed at, Voronov, V. "Rospylesos" Sergeya Chemezova', *svoboda.org*, 8 May 2016, available at: <http://www.svoboda.org/content/article/27722358.html>

concerned, she lags far behind him, with only a Volga GAZ M21 and a compact Mitsubishi L200 pickup truck.

According to her official biography, Yekaterina Ignatova graduated in 1994 from the Moscow State University of Railway Engineering (known until 1993 as the College of Railway Engineers). Despite her degree in railway economics, her first job was in the Simultaneous Translation Department of Moscow State Linguistic University. From there she moved to the Presidential Executive Office, where her own and Chemezov's paths crossed. She worked under him at *Promexport*, which sold arms from the stores of the Ministry of Defence, and then in *Rosoboronexport*. According to Forbes, Yekaterina Ignatova owns 70% of KATE, which supplies automatic transmissions to AvtoVAZ for the Lada Kalina. She also owns a 13% stake in International Financial Club (IFC), a bank established by Mikhail Prokhorov. Ms Ignatova is not only a shareholder of IFC but indeed the chairwoman of its Board of Directors. In 2010, Chemezov himself joined IFC's Board of Directors, which includes the billionaires Viktor Vekselberg, Mikhail Prokhorov and Alexander Abramov. Chemezov's wife is also the principal owner of the Etazh chain of urban restaurants, the Ye club, the Picasso DJ-bar, the Dal Capo pizzerias, the Aquapark bar, the Troy restaurant and the Eclair cafe and patisserie. In 2011, *Vedomosti* reported that Ms Ignatova was co-owner of Itera, an oil and gas group (and the third largest gas company in Russia), whose shares she acquired through Elsamex Enterprises Ltd, an offshore company in Belize which she owned. Of the 5.1 percent of shares owned in Itera, she sold 4 per cent to another offshore company, Symius Global Corp.

Chemezov claimed at the time to have had no idea his wife was co-owner of Itera and a dollar multimillionaire. It came, he averred, as a complete surprise to him. In another interview he stated that he saw nothing prejudicial in his family doing business which intersected with the activities of the state corporation he headed. The specific issue on that occasion was the purchase of automatic transmissions manufactured by KATE, owned by Ignatova, by AvtoVAZ, where Chemezov was Deputy Chairman of the Board of Directors, and KamAZ, where the CEO of *Rostec* was Chairman of the Board of Directors. There could not be any conflict of interest, he argued, because 'the range of Russian Technologies' operations is so vast that, no matter where Ignatova worked, with sufficient determination it would always be possible to dig up links to the state corporation.' However, as our colleagues on *Vedomosti* were quick to point out, no other senior managers of the state-owned corporation could be accused of irregularities because 'only members of the Chemezov family are doing any business linked to it.' Representatives of the corporation claimed at that time that 'Yekaterina Ignatova has been dealing with problems in the Russian automotive industry' and the manufacture of automatic transmissions 'since late 1990', but their chronology is problematical: can she really have been manufacturing automatic transmissions in the Presidential Executive Office? Or in *Promexport* or *Rosoboronexport*? The state corporation's spokespersons went on to say that KATE was set up in 2004, before there was even a plan in the pipeline for Russian Technologies. Accordingly, 'It is entirely pointless to see cause and effect or family links here. There simply were and are none.' Of course there aren't, because it was only in 2004 that Ms Ignatova married Mr Chemezov, and after their marriage that her business talents blossomed so luxuriantly.

Russian Vacuum Cleaner Technologies, or the Car Motorbike Bicycle Photo Carriage and Tractor Factory

Sergey Chemezov holds in his hands Russia's mightiest state corporation, an industrial giant which controls virtually all the state's mechanical engineering output and which, in terms of its overall financial and economic clout, may even surpass that great 'national asset', Gazprom itself. Certainly, as far as lobbying for its interests and shaking down the treasury are concerned, Chemezov's fiefdom

has unquestionably overtaken that 'natural monopoly'. When the Russian Technologies state corporation, later renamed *Rostec*, was established in 2007, it was nicknamed Russian Vacuum Cleaner Technologies because, when it was initially being established, the corporation did its utmost to Hoover up practically the entire industrial base of the Russian Federation. If the original list of assets to be transferred to Chemezov's baby was a mere 250 enterprises of the military-industrial complex, the creators of the nascent state corporation made a bid for no fewer than 600 enterprises, of which a good 20 per cent were purely civilian. They included printing companies which had nothing to do with the military sector but happened to be rather profitable. Chemezov's wishlist included dozens of leading pharmaceutical companies and research institutes. The apparently inexplicable ambition to swallow all these highly profitable enterprises was claimed to be necessary to ensure the nation's 'biosecurity'. There was more: the corporation also made a grab to take over defence procurement, receiving and allocating defence budget funds. The arrangement would then be: 'We develop projects as we see fit, then test, commission and manufacture them. The consumer receives (at monopoly prices) whatever we decide is good for him.' Already in the preliminary stage the result was a huge, unwieldy, but devastatingly powerful monster which would manufacture everything from titanium to rolled steel, steamships to locomotives, aeroplanes to helicopters, tanks to artillery pieces, missiles, pipes and pills.

Russian Technologies' ambitions incensed almost all the agencies involved: the Ministries of Finance, Economic Development, Industry and Trade, Transport, Defence, and the Federal Antimonopoly Service. After the pharmaceutical industry, the last straw was the aspiration of Chemezov's team to seize the KamAZ and UAZ automotive factories, the *Uralvagonzavod* and Tver Carriage-building Works, the *Technopromexport* energy engineering company, the Central Research and Development Automobile and Engine Institute, and a number of airline companies. The most strenuous attempt to thwart the new corporation's ambitions came from the then Minister of Economic Development, Elvira Nabiullina. She demanded to know why, if the state corporation had been created specifically to optimize functioning of the military sector of the economy, it should need to take over companies wholly unconnected with defence procurement. The Ministry of Economic Development advised against transferring to Chemezov the assets of KamAZ and the government's stake in over 120 other companies. The Ministry of Industry and Trade blocked the transfer of the pharmaceutical companies into Chemezov's care, and First Deputy Prime Minister Sergey Ivanov and Vladimir Yakunin, the head of Russian Railways, joined forces in refusing to surrender the *Uralvagonzavod* carriage works to him. In June 2008, Finance Minister and Deputy Prime Minister Alexey Kudrin sent an official letter to the government stating that the proposal to transfer certain assets to Russian Technologies was a blatant attempt to embezzle state budget revenues, because the procedure for selling them was opaque and no monitoring of the revenues of the state corporation would be possible.

Chemezov reacted to the criticism robustly, accusing his detractors of disingenuousness, demagoguery, and a desire 'to stalemate a realistic project.' 'In response to all sorts of assertions on the part of those opposed to the forming of state corporations and of Russian Technologies in particular,' he wrote, 'I publicly state that we have no desire to swallow all of Russian industry, and accusing the state corporations Russian Technologies and *Rosoboronexport* of some mythical corporate raiding is not only groundless but actionable.'

Very soon there was born, and I quote the Federal Law of 23 November 2007, 'The State Corporation for Facilitation of Development, Production and Export of High-technological Industrial Output'. This is, in effect, a huge administrative apparatus which does not actually produce anything but does control staggering financial flows. Its director is Sergey Chemezov.

The Mining Engineer's Secret Mission

Year after year, the official biography of Sergey Chemezov accumulates further honours, ranks, titles, memberships and chairmanships of every conceivable board and council of directors, of foundations, supervisory boards and boards of trustees. Every two or three years he receives state awards, and already boasts five orders of the Russian Federation, all of them awarded under secret decrees, as if the head of a state corporation were carrying out a special mission deep behind enemy lines. There is little information about his personal life, and the official chronicle is pitted with lacunae. For quite some time, this reticence has prompted speculation about Chemezov's possible allegiance to Lubyanka, or even to its 'neighbours', as military intelligence is traditionally referred to, and which Sergey Viktorovich's rank of colonel general might seem to confirm.

Chemezov began his working life at the Irkutsk State Research Institute of Rare and Non-ferrous Metals. The USSR Ministry of Non-ferrous Metallurgy in charge of the research institute was one of the most powerful and influential of all the USSR ministries, and concerned itself less with non-ferrous metals than with raw materials of strategic importance for an even more powerful agency, the Ministry of Medium Mechanical Engineering which was, in effect, the ministry of atomic weapons. Both these closely connected agencies were headed uninterruptedly, almost until the end of the Soviet era, by hardline Stalinist commissars: the Ministry of Non-ferrous Metallurgy by Pyotr Lomako, and the Ministry of Medium Mechanical Engineering by Yefim Slavsky. Both had been appointed by Stalin, and both worked on creating the first Soviet atomic and hydrogen bombs under the personal supervision of Lavrentiy Beria.

One former 'non-ferrous metallurgist' said in an interview that in the 1970s and early 1980s, as he knew from firsthand experience, the regime both at the outlying sites and in the Ministry in Moscow was conservative and extremely rigorous: total secrecy was imposed, and informing and denunciation were the norm. What was required was unquestioning obedience, with no answering back.

After the Institute, Chemezov worked in the *Luch* ('Ray') 'experimental industrial group', an important division of the Soviet nuclear industry, and from 1983 to 1988 was director of the East German office of *Luch* in Dresden. There followed a curious move to the *Sovintersport* foreign trade association, but far more significant is the fact that in Dresden Chemezov was Putin's next door neighbour in the house on Radeberger Strasse.

In late 1999, when to know Vladimir Putin had become convertible currency, Chemezov, by then director of the foreign economic relations department in the Presidential Executive Office, was put in charge of the Federal State Unitary Enterprise, *Promexport*, which few people now remember. Officially engaged in selling Defence Ministry 'surplus' property abroad, it was a dangerous rival to the *Rosvooruzheniye* company of blessed memory, which at that time was pointedly nicknamed *Rosvor* ('RusThief'). The advent of Chemezov in *Promexport* was linked to a series of developments which surprised the arms dealing community. First, something went wrong at *Promexport* itself, its revenues falling sharply from \$ 250 million to \$ 120 million. It slipped from second to fourth place among Russian arms exporters, lagging behind *Rosvooruzheniye* by a factor of 12. Chemezov had clearly not won his spurs as an 'effective manager', but his first year in the arms business concluded with a massive scandal. *Rosvooruzheniye* had at that time prepared a contract to deliver Mi-17 helicopters to Colombia, but right at the last moment, when everything had been agreed, emissaries from Chemezov suddenly appeared in Bogota offering to sell the same helicopters at a lower price. Totally confused, the Colombians backed out of the deal altogether. Much the same story was repeated in India. The Indian Air Force put a weapons system out to

tender. *Rosvooruzheniye* conducted serious preliminary work and the Indians liked their offer. It was sent for consideration by the Tender Board, when there unexpectedly appeared a bid from *Promexport*, offering the same but for 15 per cent less. The bemused Indians suspended consideration of the Russian tenders and the contract was lost. Similar incidents occurred in other countries, causing huge losses to *Rosvooruzheniye*. The company was practically expelled from the markets of Algeria, Libya, Syria and the UAE, although previously it had been a strong contender for contracts. One possible explanation for these goings-on was that *Rosvooruzheniye* was managed by Alexey Ogarev, a protege of Yeltsin and his 'family'. Soon *Rosvooruzheniye* and *Promexport* were merged into a single company, and Chemezov, the 'friend of the new tsar', was given a leading role in *Rosoboronexport*, although initially only as first deputy to the CEO.

Since then, Chemezov's career has shown a steady upward trend. To begin with, he found himself under Andrey Belianinov, his former deputy in *Promexport*. In retaliation, Chemezov flatly refused to move to the head office of *Rosoboronexport* on Gogolevsky Boulevard from Stromynka, the premises of the old *Promexport*. The head of the company found himself obliged to go there to meet his deputy. As one of Sergey Chemezov's subordinates wryly remarked at the time, 'We love not only the walls of home, but even the very bugs in them.' By April 2004, Sergey Chemezov was the fully fledged CEO of *Rosoboronexport*, and people could only watch in wonder as the company became super-influential. In January 2007 it was granted a monopoly on the right to export arms.

The Corporal's Dream

And so, to Russian Technologies. The corporation gobbled up entire industrial sectors, swallowing in the process a great swathe that were purely civilian. This was not a setting up of new companies, but a takeover of enterprises already in existence.

Having been handed the state's stakes in 420-440 enterprises, which were valued at the time at \$ 18-20 billion, *Rostec* today consists of, and I quote the corporation's website, '663 organizations in 60 regions of the Russian Federation.' On another page we are told that the corporation comprises over 700 organizations. Having, in the summer of 2008, been handed such enormous assets by the state, the first thing the corporation's 'effective manager' did was request a further \$ 7.22 billion from the state in cash and government guarantees.

In September 2007, speaking at the Moscow State Bauman Technical University, Chemezov admitted that 'we lead the planet only in the extraction and sale of our raw materials.' The Doctor of Economic Science pronounced his diagnosis: what was desperately needed was fifth-generation military equipment, but the defence industry was manufacturing only third-generation armaments because its equipment was absurdly outdated: the proportion of relatively modern machinery was no more than 5 per cent. The situation with new technologies was even worse, because 'we are still using discoveries and scientific innovations made by Soviet scientists in the 1970-80s. The present state of the Russian engineering industry rules out any possibility of competing in foreign markets, or even in the domestic market.' At the end of his speech, Dr Chemezov wrote out his prescription: 'We have found the prescription for overcoming this stagnation: it is to create state corporations in the most important sectors of the economy.'

The results of following that prescription have been as follows. Back in 2007, Chemezov assured the public that in 2008-12 Russia would manufacture 'more than 430 Il-96, Tu-204, 'Sukhoy Superjets', Tu-334 and An-148 aircraft,' and that the nation's share in global production of civilian aircraft would rise from 1 to 5 per cent by 2015, and to 10 per cent by 2025. It is a long time yet to 2025, but 2012 and 2015 have already passed. Production of the Tu-334 collapsed: none were

manufactured. No IL-96 aircraft were produced during the period specified, and those in operation are only 11 produced 'pre-Chemezov'; 27 TU-204s were produced in 2008-12, and another 5 in 2013-15. From 2008 to 2012 only 15 AN-148s were manufactured in Voronezh, with a further 13 made since 2013. Only 22 Sukhoy Superjet 100 airliners were made in 2008-12, although since 2013 a further 77 have been produced. The fact of the matter is that, instead of the 430 aircraft Chemezov promised by 2012, the aviation industry managed to produce only 64. Subsequently, to be fair, the air fleet has slightly expanded with Superjets, although it is questionable whether they can really be regarded as Russian because they are assembled mainly from imported parts. That is still quite a shortfall from the promised 430 aircraft, only 159 having been manufactured in the 'Chemezov era'.

We should not overlook AvtoVAZ, which Chemezov's team took under its wing back in 2005. AvtoVAZ was losing money, and still is. In 2014, its net loss was 25.4 billion rubles, while in 2015 it hit an all-time record by losing 73.851 billion. Sales, compared with 2005, have fallen by more than 2.6 times. Nevertheless, one of the people closest to Chemezov, Vladimir Artyakov, who in 2006-2007 was president and CEO of AvtoVAZ, was paid 1.5 billion rubles in bonuses for just the 8 months in which he worked in that capacity.

Chemezov has publicly stated on more than one occasion that, in order to avoid dependence on Ukraine, Russia has designed its own engines for the Mi and Ka helicopters and is furiously manufacturing them. To support this contention, some rather odd statistics have been produced. In 2012, it was reported that Klimov in St Petersburg had dramatically increased production of helicopter engines, raising their output in 2011 to 260. In 2014, however, Artyakov, now Chemezov's first deputy, said that production was still at the 'experimental design' stage, in other words, not in serial production, and they were seeking to increase the output of engines from 50 in 2014 to 350 by 2017. So what happened to those 260 engines Klimov manufactured in 2011, if in 2014 producing 50 was regarded as progress? In February 2015, the CEO of United Engine Corporation, Vladislav Masalov, let slip that, only 'in the past year the first 10 engines made entirely of Russian components have been manufactured by Klimov.' In other words, in 2014 there were not even 50 wholly Russian engines, but only 10! When, in June 2014, Chemezov reported that 'at the present time we are producing some 50 units per year,' was he being economical with the truth?

Today, Chemezov's baby is not being monitored by anyone except the president. As far as non-transparency goes, the state corporation is in a class of its own: according to the Federal Law No. 270-FZ of 23 November 2007, only the president is entitled to 'enquire into' the state of affairs in *Rostec*, and nobody else. It is stated specifically that neither federal institutions of government nor government institutions of territories of the Russian Federation, nor municipal local government institutions 'have the right to intervene in the corporation's activities.' Furthermore, until recently the annual report of this state corporation was not made public and was forwarded only to the president and circulated within the government. Following amendment of the law, the report is now to be published on the official website, but with the proviso that this will be 'in compliance with the legislation of the Russian Federation on state secrets and the legislation ... relating to business confidentiality.' Of course, everything in the military-industrial corporation is, by definition, secret.

Rostec is exempt from a number of provisions of Article 32 of the Federal Law 'On non-commercial organizations', which just happens to be the article regulating monitoring procedures. There are many other bonuses. For example, *Rostec* cannot be declared bankrupt, the corporation is 'not liable for the obligations of the Russian Federation,' and the state, in turn, is not liable for the obligations of the state corporation. In 2007, Sergey Chemezov hit the nail on the head when he

noted that one of the main advantages of a state corporation was the major extension of its legal rights: a corporation endowed with the power of the state 'can operate effectively, stably, and without bureaucratic procrastination.'



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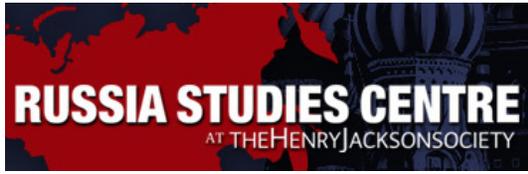
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