

The Ulyukaev case – tension inside the Russian elite

Szymon Kardaś, Iwona Wiśniewska

Alexey Ulyukaev, the Minister for Economic Development, was detained on 14 November 2016. Subsequently the Investigative Committee of the Russian Federation launched an investigation against him on the charge of accepting a bribe (US\$2 million). The bribe was reportedly offered in appreciation of the ministry's positive opinion that enabled the state-owned oil company Rosneft to take over a 50.08% stake in Bashneft (the transaction was finalised on 12 October 2016).

Much seems to indicate that the Ulyukaev case is an element of the rivalry of opposing groups of interest inside the Russian ruling elite. The operation was initiated by the CEO of Rosneft, Igor Sechin, and its goal was to deal a blow against the government's economic bloc criticising Rosneft's expansion in the Russian energy sector. In turn, the Ulyukaev trial itself has been used by Sechin's numerous opponents to undermine his position. However, the developments seen over the past year show that Igor Sechin remains the key player in the Russian energy sector. He owes his position to his close links with Vladimir Putin and the important function which Rosneft plays in the country's domestic and foreign policy. The conflict between interest groups is an integral element of the Russian political system, and allows the Russian president to play the role of arbiter in the government elite. The rules of operation of this system are unlikely to change significantly in the coming years.

Combating corruption as an instrument of the political game in Russia

Accusations of corruption are a frequently used instrument of the political struggle in Russia. Numerous corruption scandals have been given a great deal of publicity in the Russian Federation over the past few years. Several governors (including Nikita Belykh and Aleksandr Khorošavin) and state officials (for example, from the ministries of internal affairs and of defence) have been detained as a result of these scandals. What makes the Ulyukaev case unique is the rank of the individuals engaged in it. This is the first time that an incumbent minister has been accused of corruption for reportedly having demanded a bribe from the CEO of the

country's largest state-owned oil company (for details see Appendix 1).

The accusations against Ulyukaev were initially used by the Kremlin as a message to the Russian public that the government is engaged in an effective struggle against corruption and that everyone is equal before the law. However, this policy has been not entirely effective because the Russian public are convinced that corruption is widespread among state officials and that combating corruption is just a pretence, one proof of which are the results of public opinion polls (only 36% of respondents viewed the detention of Ulyukaev as a manifestation of a real struggle against corruption, while over 50% of them saw this as rivalry between various interest groups inside the elite).

Sechin versus the government's economic bloc

It appears that the Ulyukaev case has been merely a pretext used by Igor Sechin to demonstrate his position in the elite and also to scare off his opponents and critics. Sechin's growing ambitions provoke not only resistance from interest groups but also criticism from the so-called 'economic bloc' of the government. The members of this bloc, apart from Ulyukaev, are the deputy prime ministers Igor Shuvalov and Arkady Dvorkovich, and the Minister of Finance Anton Siluanov. It needs to be noted that the economic bloc which was in charge of preparing Rosneft's takeover of Bashneft and which in fact initially criticised this idea acted only as an advisory body in this process; the decision concerning this issue was taken at the Kremlin. The detention of the minister was doubtless also intended at undermining the position of Prime Minister Dmitri Medvedev himself, who is believed to be one of the main opponents of Igor Sechin, and their mutual animosity is well-known. The Russian media suggest that Sechin might be the one who made the materials concerning Medvedev available to the key Russian opposition activist, Alexey Navalny, which he used to prepare the film discrediting Prime Minister Medvedev titled *He is not Dimon to you*.

The Ulyukaev case is merely a pretext for Igor Sechin to demonstrate his position in the elite.

The tasks of the economic bloc, which is responsible for the country's financial stability, have in many cases contradicted the interests of other members of the Russian elite, including Sechin and Rosneft, the company he manages. Governmental economists have on many occasions suggested that the efficiency of the Russian economy should be improved, for example, by

restricting the state's engagement in the economy or introducing elements of competition to the economy. However, over the past few years, the role of the government's economic bloc has been gradually weakening among the Russian ruling elite; geopolitical interests and internal political benefits are much more important to the Kremlin than economic efficiency – one example of this is the annexation of Crimea.

Sechin's opponents in the Russian energy sector

Both the investigation and the manner in which the trial of Alexey Ulyukaev has been conducted show that he has received support from many sources, certainly not only from his friends but also from Sechin's numerous opponents. This company's excessively expansive policy in the Russian energy sector has triggered resistance from other entities in this sector. Although his opponents do not form a united front (and may also enter into tactical alliances with Rosneft on selected issues), they are most likely trying to use the trial to undermine Sechin's position. These include both state-owned entities (above all Gazprom and Transneft) and private individuals and companies (including Gennady Timchenko and Novatek, and LUKoil).

One of Rosneft's main opponents is Gazprom, Russia's largest state-controlled gas company which is part of the real system of power in Russia. Its non-transparent operations make it a source of income of the Russian elite. The company's CEO is Alexey Miller. Gazprom's attitude is a consequence of Rosneft's growing ambitions in the gas sector. The dispute between the two companies concerns the strategy of developing the gas sector, and the main issue in this dispute is currently liberalisation of gas export via the pipeline system. At present, Gazprom has a legally guaranteed monopoly in this area. Igor Sechin has for many years been consistently lobbying not only for the liquidation of the export monopoly but also for un-

bundling Gazprom. Disputes over the implementation of specific projects are a constant element of relations between the two companies: Rosneft's struggle for access to the transport infrastructure on Sakhalin Island owned by the Sakhalin Energy consortium (Gazprom is a member of the consortium); the final decision concerning this issue – beneficial for Rosneft – was passed in September 2015; and the still unresolved dispute over gas supplies to Rosneft's planned petrochemical plant in the Far East (no compromise has been reached with Gazprom as yet). At the same time, Rosneft and Gazprom are tactical allies as regards maintaining the existing rules of access to production at fields located on the Arctic Sea shelf. Pursuant to the laws currently in force, the right to obtain a licence for exploration and production is vested only in these two state-owned companies.

Igor Sechin's growing ambitions have met with resistance from interest groups and the governmental economic bloc.

Nikolai Tokarev (a former KGB officer, he worked with Vladimir Putin in East Germany), the CEO of the state-owned company Transneft, the owner and operator of almost the entire network of Russia's oil pipelines, has also been engaged in numerous disputes with Igor Sechin for years. The disputed issues include: the value of transport tariffs, the priorities of developing the transport infrastructure in Russia (Transneft is opposed to plans to build connectors to a large petrochemical complex planned by Rosneft in the Russian Far East); Rosneft's failure to comply with its obligations concerning volumes of supply to newly launched oil pipelines (for example, Kuyumba – Taishet); and media speculations over a possible takeover of Transneft by Rosneft. One of Igor Sechin's rivals, among private entities, for influence in the sector is Gennady Timchenko, a friend of Vladimir Putin and a co-

-owner of Novatek, Russia's largest private gas producer. Until March 2014, Timchenko was one of the major shareholders of Gunvor, a trader firm which won a 40% share of Russian oil trade in the 2000s (predominantly oil supplied by Rosneft). However, in 2013–2014, its share fell to 1% mainly as a consequence of Rosneft's discontinuing using Gunvor's trader services. In turn, Novatek is Rosneft's competitor on the Russian gas market (they are mainly vying for lucrative contracts with industrial gas recipients).

At the same time, Novatek is Rosneft's important ally in the efforts to lobby for restricting Gazprom's export monopoly. One illustration of the joint lobbying efforts of Sechin and Timchenko was the act on liberalisation of the rules of liquefied natural gas export adopted in November 2013 which vested Novatek and Rosneft with the right to export LNG (although the act introduced general criteria which need to be fulfilled in order to obtain export licences, in practice only Novatek and Rosneft meet these criteria). Furthermore, Novatek and Rosneft oppose Gazprom's proposals to increase the volume of gas sold on the Russian exchange (at present, Gazprom cannot sell more gas on the Russian exchange than all the other producers in aggregate; furthermore, the volume cannot exceed 17.5 billion m³ of gas annually).

Another of Sechin's opponents is Vagit Alekperov, the head of LUKoil, Russia's largest private oil producer. Rosneft is blocking private companies' efforts to be given the right to produce oil and gas in fields on the Russian Arctic Sea shelf. LUKoil is also concerned about media speculation that it might be taken over by Rosneft. However, LUKoil is Rosneft's tactical ally – although it is not engaged to the same degree as Novatek – in lobbying for Gazprom's export monopoly to be restricted.

Even though no one has openly stood up in defence of the former minister Ulyukaev, the investigation and the trial have provided the opportunity to make attempts to discredit the reputation of Igor Sechin. Until recently Sechin

had shunned publicity but has become an important subject of a public trial during which aspects of the case are being revealed to the general public; many of these are inconvenient for both Sechin and the Russian secret services which prepared the operation to detain Ulyukaev. The public disclosure of the FSB's operational materials proved to be especially inconvenient. These included films showing the detention of Ulyukaev and stenographic records of his tapped telephone conversations and his meeting with Sechin at Rosneft's office.

Sechin's opponents also form tactical alliances with him.

Not only did they fail to incriminate the former minister beyond any doubt – they also revealed important information concerning Rosneft's operation and investment strategy. Igor Sechin was outraged by the decision to publicise these materials and called it 'idiocy'. Interestingly, the films shown in the courtroom were leaked to the media in unclear circumstances (they were published on 14 November 2017). The numerous albeit unsuccessful attempts to summon Sechin himself as a witness can also be recognised to some degree as a success for Sechin's opponents. It can be concluded from the course of the trial so far that the services have not collected irrefutable proof of criminal activity (or have not shared it) – in fact the trial can be summed up as 'Sechin's word against Ulyukaev's.' Furthermore, Ulyukaev not only has pleaded not guilty but has also openly accused the Russian secret services and Igor Sechin of plotting against him.

Sechin is still on top

Under Vladimir Putin's rule, Igor Sechin has become a key figure in the Russian ruling elite and has significant influence on strategic deci-

sions. On the one hand, Igor Sechin's position is a consequence of his loyalty to Vladimir Putin, with whom his career has been closely linked since 1991; Igor Sechin has followed Putin like a 'shadow', at first at his secretariat at the office of the mayor of Saint Petersburg, and then in Moscow at the presidential administration and in the government (for more details, see Appendix 2). On the other hand, Sechin is sometimes used by the president for 'special tasks', especially to discipline those members of the elite who have earned fortunes on state property (for example, the Yukos case).

The summary of events seen in the past year (since Ulyukaev's detention) proves that Sechin still has a strong position in the Russian system of power. Firstly, the legality of Rosneft's purchase of a controlling stake in Bashneft has not been questioned even though this deal was allegedly linked with the 'bribe' offered to Alexey Ulyukaev.

Secondly, the process of privatising 19.5% of Rosneft's shares that had been planned for many years was finally conducted in accordance with Igor Sechin's concept and, as it turned out, in a very non-transparent manner. Rosneft's shares were bought by what formally is an international consortium consisting of the trader firm Glencore and the Qatari Investment Fund; the unclear ownership structure of the participants of the deal and the next stage of privatisation of the block of shares (it was announced in September that a 14.2% stake would be bought by CEEFC, a Chinese company with non-transparent connections and an unclear ownership structure), adds to the suspicion that the immediate beneficiaries of the transaction may be individuals linked to the management of Rosneft or other members of the Russian political elite.

Thirdly, in July 2017, Rosneft won the auction for the licence authorising the exploitation of Erginskoye, one of the last undeveloped large oil fields located in the Khanty-Mansi Autonomous Area (its resources amount to around

400 million tonnes of oil). The companies that had previously been interested in obtaining the licence included LUKoil and GazpromNeft.

Fourthly, much seems to indicate that Rosneft's claims with regard to AFK Sistema (a private company established in the early 1990s; many people originating from the KGB have worked in its management; it owned Bashneft until 2014) will be satisfied in accordance with Igor Sechin's expectations. Rosneft has accused AFK Sistema and its subsidiary AO Sistema Invest of acting to the detriment of Bashneft.

Conflicts inside the elite are an integral element of the system of power in Russia.

The total value of the claims is 170.6 billion roubles; the court has awarded so far in court proceedings that the claims of Rosneft and Bashneft worth 136.3 billion roubles are reasonable (the award of the court of the first instance has been contested by both parties to the proceedings).

Fifthly, the dispute with the Chechen leader Ramzan Kadyrov over Rosneft's assets located in the territory of this republic has been resolved in Igor Sechin's favour so far. The compromise reached in April 2017 has allowed Rosneft to maintain a 51% stake in Grozneftegaz, the company in charge of oil production in Chechnya.

Sixthly, it seems clear that another stage of the tax reform in the oil sector planned by the government will take into account Rosneft's proposals to a significant extent. The tax breaks for Samotlor (one of the largest oil fields owned by Rosneft) have been maintained. The consent to maintain the preferences system is a major concession from the ministry of finance which initially proposed introducing a system liquidating any tax breaks as regards the mineral extraction tax (MET) vested in Russian oil firms.

No changes in the system

The Ulyukaev case has paradoxically demonstrated the stability of the Russian system of power, where vying for influence and thus for public resources between particular interest groups is a constant element, and Vladimir Putin remains the key decision-maker.

On the one hand, the strengthening of Sechin's position would not have been possible had his moves not been approved by the Russian president. Thus Vladimir Putin in a way becomes the guarantor for the assets and influence which Sechin has in the Russian energy sector and the ruling elite. On the other hand, it is beneficial for Putin to keep members of the elite uncertain about the boundaries of their expansion and support, which allows him to continue playing the role of an arbiter in this system. This is the reason why he has been delaying some strategic decisions proposed by Rosneft, such as restricting Gazprom's export monopoly. This might lead to upsetting the balance in the energy sector and weakening the position of Russia's largest gas company which also performs many important functions in the country's domestic and foreign policy.

In principle, the rivalry between the members of the elite is taking place behind closed doors, so it is unclear what the decision-making process itself looks like. However, it can be assumed that Russia's shrinking financial resources are escalating this rivalry and contributing to reducing the number of the members of the Kremlin elite. One effect of this might be the publicity given to the Ulyukaev case. This is, however, an exception rather than a rule – the 'operations' of removing the president's close aides from top government positions and thus depriving them of control of essential financial flows have not caused a similar resonance so far. This has happened, amongst others, to: Vladimir Yakunin (in 2015, he was removed from the position of the president of the Russian Railways which he had held for 10 years) and Andrey

Belyaninov (in 2016, he ceased to be the president of the Customs Service of the Russian Federation, a position he had held for 10 years). In both of these cases, the officials were dismissed on favourable conditions and they not only were not held accountable for their actions but also maintained part of their assets. Thus in practice, the top members of the

Russian elite centred around the Kremlin, including Putin himself, treat the state's assets as their own property (at present, the state's share in the economy exceeds 70% of GDP). It is unlikely that any major changes will be made in the rules of how this system functions after the expected re-election of Vladimir Putin in the upcoming presidential election.

APPENDIX 1

The circumstances of the detention of Alexey Ulyukaev and the course of the trial

The evidence incriminating the minister was provided to the Investigative Committee by the Federal Security Service (FSB). The FSB had been inquiring after the minister in connection with the report from the CEO of Rosneft, Igor Sechin, that the minister had demanded a bribe (this reportedly took place during the BRICS summit in Goa on 16 October 2016, i.e. four days after Rosneft took over Bashneft). The FSB staged a provocation in Rosneft's office against Ulyukaev by handing him a suitcase containing US\$2 million. This suitcase was found in Ulyukaev's car at the time of his detention. Ulyukaev has pleaded not guilty from the very beginning. He claims that he did not know that the suitcase he received from Sechin contained money; he was convinced that it contained wine which Sechin used to give as presents to his guests (he received a basket with sausages made from the wild animals hunted by Sechin; it was delivered in the CEO's room).

Alexey Ulyukaev was put under house arrest under a court verdict passed on 15 November 2016 and was dismissed by the president one day later. The public trial into his case began in summer 2017. However, the court did not grant consent for the trial to be broadcast, and journalists are only allowed to listen to the court sessions and report on the progress of the proceedings on-line.

Prosecution witnesses have given statements so far. Recorded tapped telephone conversations, films showing Ulyukaev's meetings with Sechin and the money found in the car have also been presented. Statements in court have been given, amongst others, by the officials who took part in the process of the 'privatisation' of Bashneft and officers of the services engaged in detaining the minister, including an FSB general, Oleg Feoktistov (his statements were not disclosed to the general public), who at the time of Ulyukaev's detention worked as the head of Rosneft's security service (from 20 September 2016; he resumed service at the FSB in March 2017 to retire at the age of 53 at the end of August). Sechin has also been summoned to testify as a witness but has failed to appear in court due to his numerous official obligations (he has given statements four times during the investigation). Defence witnesses, including defendant Alexey Ulyukaev, have also been heard by the court. At present, the parties are preparing their final statements.

The evidence presented by the prosecutors does not conclusively incriminate Ulyukaev. Neither the tapped conversations nor the film prove that Ulyukaev had demanded a bribe from Sechin and knew that the suitcases he received contained money (his fingerprints were found on the suitcase handle but not on the banknotes).

APPENDIX 2

Igor Sechin and Rosneft – their position in Russia

Throughout his career, Igor Sechin (who studied Romance languages and worked as an interpreter for the Russian army in Mozambique and Angola in the 1980s) has been closely linked to Vladimir Putin since 1991. Sechin has followed Putin like a ‘shadow’: at first at his secretariat at the office of the mayor of Saint Petersburg, and then in Moscow he served as deputy head of the presidential administration in 2000–2008, he performed the function of deputy prime minister for the fuel and energy sector in 2008–2012 and since 2012 he has held the post of executive secretary of the presidential Commission for the Strategic Development of the Fuel and Energy Sector and Environmental Security. Throughout this period, initiating a number of acquisitions, he has turned Rosneft from a state-owned company of minor significance (Igor Sechin was the head of its board of directors in 2004–2011, and has served as its CEO since 2012) into a dominant entity in the Russian oil sector. This process was initiated with the nationalisation of Yukos, which was Russia’s largest oil company until 2003; a great part of its assets has been taken over by Rosneft. The takeover of TNK-BP in 2013 made Rosneft one of the world’s largest individual oil producers.

The company is one of Russia’s largest taxpayers. Rosneft’s investments in poorly developed regions provide an alternative for the lack of other development impulses; one of the most recent examples is Rosneft’s official participation as a strategic investor in the Far East – the company is expected to invest around 500 billion roubles in the construction of a petrochemical complex that will be a key investment as part of the Territory of Advanced Development in Primorsky Krai (the TADs are a new version of special economic zones). It also needs to be noted that private companies linked to representatives of the Russian ruling elite (including the Rotenberg brothers and Gennady Timchenko) have in many cases been put in charge of implementing Rosneft’s investment projects.

Rosneft is also an important instrument in the Kremlin’s foreign policy. Many of Rosneft’s foreign investments are intended not so much at generating economic gain for the company itself but rather at strengthening the political influence of the Russian state. Examples of this include the projects implemented by Rosneft in Latin America (Venezuela, Brazil and Cuba), Asia (Indonesia) and the Middle East (Iraqi Kurdistan).

EDITORS: Adam Eberhardt, Marek Menkiszak,

Katarzyna Kazimierska, Anna Łabuszewska

TRANSLATION: Ilona Duchnowicz

COOPERATION: Nicholas Furnival

DTP: Bohdan Wędrychowski

Centre for Eastern Studies

Koszykowa 6a, 00-564 Warsaw

phone: +48 | 22 | 525 80 00

e-mail: info@osw.waw.pl

Visit our website: www.osw.waw.pl

The views expressed by the authors of the papers do not necessarily reflect the opinion of Polish authorities
