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Rich Oligarch, Poor Oligarch

By Richard Lourie

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Every December, the richest men in the world sail their yachts to the French Caribbean island of St. Bart's to throw lavish New Year's Eve parties. What matters most is whose yacht is longest and whose party hottest. This year the honors went to Roman Abramovich whose gala took place on his yacht, the Eclipse, which at 171 meters and $1.2 billion is the longest and most expensive in the world.

At that same time, former Yukos CEO Mikhail Khodorkovsky, once Russia's richest man, received an additional six-year prison sentence. The animosity between Prime Minister Vladimir Putin and Khodorkovsky is clearly personal. Two weeks before the sentencing, Putin quoted a line from the 1979 Soviet classic film "The Meeting Place Cannot Be Changed" — "A thief must sit in jail." In a more up-to-date reference, Putin compared Khodorkovsky to U.S. financier Bernard Madoff, thereby showing he is very savvy about events in the United States or that he has first-rate spin doctors. Khodorkovsky, for his part, called Putin "pitiable."

But it is more than personal. The striking contrast between the fates of Abramovich, who participated in and benefited from the dismantlement of Yukos, and Khodorkovsky is also

meant as a clear lesson for oligarchs: Stay out of politics and you can go yachting. Otherwise, you could end up in a cold cell in Siberia.

Throughout Russian history, the supreme leader has had to humble the great lords around him from time to time, be they boyars, old Bolsheviks or oligarchs. In the current corrupt system, everything is for sale, which includes the votes of politicians and the loyalty of generals. The superrich inevitably long to be superpowerful as well, which is why they pose a potential threat to the Kremlin. This explains the real reason why Khodorkovsky will be staying in jail for another six years.

The current conventional wisdom is that Khodorkovsky's conviction proves that there is no rule of law in Russia and will thus put a damper on foreign investment just when the country needs to modernize and innovate. Two events that also occurred in December offer a different perspective. First, Pepsi bought juice and dairy company Wimm-Bill-Dann for $3.8 billion, its largest foreign investment ever. Second, on Dec. 31 the Russian-Chinese pipeline was officially opened, which, when completed in 2013, will be the world's largest at more than 4,000 kilometers. As a Reuters report noted: "The Russian state oil firm Rosneft has been sending oil to China by rail since it bought the biggest unit of defunct oil giant Yukos six years ago. The purchase was facilitated by a $6 billion loan from China, which effectively prepaid $17 per barrel for 48.4 million tons of oil." (Not surprisingly, this was a contract Rosneft declined to renew.)

But what can be done for potential investors who are not as bold as Pepsi or as powerful as China? What can the government do to assure them that their money will be safe without giving up the use of the law to bludgeon uppity oligarchs?

Perhaps here the past can serve as a guide. In Soviet times, there were two kinds of stores — ones where crummy goods could be bought for rubles and others where quality merchandise was purchased with hard currency. Perhaps the Kremlin could create a similarly dual legal system: In one, foreigners would be assured of deluxe justice, and in the other Russians would receive the same drubbing they've been getting for centuries.

Richard Lourie is the author of "The Autobiography of Joseph Stalin" and "Sakharov: A Biography."

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