The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

The Loyalty of Fear

Putin sends a message to the elite with the arrest of Russia's economic development minister

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November 15, 2016



Vladimir Putin meets with Alexei Ulyukayev in July 2014. **Sofia Miroedova**

It was an awkward, dramatic national moment for Russia: a bonafide minister of the federal government standing in court as the defendant, facing corruption charges and promising his cooperation to prosecutors, pleading to be released on bail. The hearing ended slightly anticlimactically, with a decision to place him under house arrest.

In court, Economic Development Minister Alexei Ulyukayev described himself as the "victim of a provocation." Though he's not imminently prison bound, Ulyukayev is now at the center of an unprecedented shift in Russia's anti-corruption campaign, which has been in full swing for the past two years. If convicted, Ulyukayev faces up to 15 years in prison.

Political elites in Moscow can scarcely remember anything as shocking as the arrest of a serving federal minister. Virtually no one saw this coming.

What The Hell Is Going On?

Ulyukayev was detained in the middle of the night, before dawn on Tuesday, after spending several hours at the office of Rosneft, Russia's state-controlled oil behemoth.

According to a humiliating report published in the pro-Kremlin tabloid "Life," Ulyukayev initially thought the federal investigators who arrested him were performing some elaborate hoax. "What the hell is going on here?" he asked repeatedly, as they carted him away. The minister's team was already on a plane en route to the Asia-Pacific Economic Cooperation Summit in Peru. Ulyukayev was booked on a flight leaving the next day, set to accompany President Putin to the summit.

Ulyukayev is charged with extorting a $2-million bribe from Rosneft, in exchange for a "positive assessment" on its bid to purchase half of the recently nationalized oil company Bashneft.

Even before the charges against Ulyukayev, the sale of the Russian government's 50-percent stake in Bashneft to Rosneft represented an important test of the state's commitment to privatization. The government only recently reacquired its shares in Bashneft, after its chief shareholder was arrested on vague money-laundering charges that were later dropped. The sale of the Kremlin's stake in Bashneft spiraled into a tug-of-war between the federal government and Rosneft, which is led by Igor Sechin, an influential and long-time ally of President Putin.

Along with other prominent government officials, such as deputy prime ministers Igor Shuvalov and Arkady Dvorkovich, and Finance Minister Anton Siluanov, Ulyukayev first openly opposed Rosneft's bid, arguing that selling Bashneft to another state-controlled company negated the whole purpose of privatization. (Two insiders tell The Moscow Times, however, that Ulyukayev's opposition to the sale was always weaker than the objections of his colleagues.)

And then came the dramatic flip: in October, government ministers suddenly dropped their objections to the sale, giving the deal a green light. Even Vladimir Putin expressed his surprise at the abruptness of it all, before consenting to the deal, as well, and announcing that the Bashneft shares had been sold at market price, with Rosneft paying $5 billion for half of Bashneft.

An Absolute Shock

Investigators say Ulyukayev was caught red-handed after a months-long sting operation in which the Federal Security Service wiretapped his phone. According to investigative reporters at the Novaya Gazeta newspaper, however, Ulyukayev never touched the money himself, which was merely discovered inside a bank safe. If true, it might explain why there's no footage of Ulyukayev handling a suitcase of cash — imagery that's often broadcast widely as a form of negative publicity in cases like this.

Police say they're not releasing visual evidence in Ulyukayev's case, in the interests of the investigation, while claiming that traces of the illicit money were detected on the defendant's hands when he was detained.

From the outset, investigators have emphasized repeatedly that the legality of Rosneft's acquisition of Bashneft's shares is not in question. In other words, Rosneft CEO Igor Sechin doesn't need to worry about police battering down his door. It was Rosneft employees who first appealed to law enforcement, investigators said in a special statement, and that is how Ulyukayev came under scrutiny.

Investigators say Ulyukayev even used threats to extort the bribe from Rosneft — an accusation that elicits nervous laughter from Moscow elites. "For people like us, who have known Alexei Ulyukayev for more than 30 years, this has all come as an absolute shock," wrote Anatoly Chubais, the head of Rosnano, a state-controlled technology firm, in a post on Facebook. Chubais worked with Ulyukayev back in the early 1990s, during the first days of Boris Yeltsin's presidency. Chubais added, "One side is saying that Ulyukayev was threatening Rosneft and extorting a bribe. Have I suddenly stopped understanding something about this world?"

The consensus among experts and insiders is that Ulyukayev posed little threat to Igor Sechin, whose influence and position in Putin's informal hierarchy is far higher. "Ulyukayev threatening Rosneft on an issue that Putin decides? It's crazy," says political analyst Gleb Pavlovsky.

Another of Ulyukayev's allies from the 1990s, Alexander Shokhin (now the head of the Russian Union of Industrialists and Entrepreneurs), also thinks the charges against Ulyukayev are implausible, saying of him, "He's been in politics for 25 years, and he's now being portrayed as some kid who's acting like he just got into the game."

Others have highlighted oddities in the version of events presented by federal investigators. "Taking the bribe one month after the deal just doesn't make any sense," a source close to the government told The Moscow Times. The size of the bribe, moreover — $2 million to approve a deal worth $5 billion — also seems suspiciously modest. And Ulyukayev is hardly cash-strapped: according to recent assets declarations, he's one of Russia's wealthiest state officials, with 16 hectares (40 acres) of land to his name, as well as three homes and three apartments.

Putin's Message

Tuesday's shocking arrest would have been unthinkable without approval from the very top of the Russian government. Indeed, shortly after police took Ulyukayev into custody, Kremlin spokesman Dmitry Peskov told reporters that Putin had been aware of the case "from the start of the investigative operations."

Ulyukayev's immediate supervisor, Prime Minister Dmitry Medvedev, on the other hand, only learned about the case the day before the arrest, according to one insider source, who described the extortion case as an enormous blow to Medvedev's government, which was "already highly demoralized" and is now in danger of becoming "totally demoralized."

Appearing in the State Duma, hours after the arrest, Medvedev couldn't conceal his deep shock. "This is a very hard development for the government — it's beyond comprehension," he said, adding, "I discussed it with the president yesterday, and he thinks the same."

Political journalist Konstantin Gaaze says Medvedev's claims about solidarity with the president are hard to believe, however, given that Putin was apparently one of the officials who orchestrated the entire case against Ulyukayev.

"President Putin takes responsibility — that's the main message here," Pavlovsky argues. "This was the president's special op, and the federal police were nothing more than a helping hand."

Vladimir Putin's fight against corruption is notoriously selective, and prosecutions invariably signal conflicts behind closed doors, between different powerful officials and business interests. Nevertheless, Ulyukayev's arrest has no precedent, and it has left Russia's elites stunned and scratching their heads.

Whatever the motivation, Putin's message to the elite with Ulyukayev's arrest is perfectly clear, says Pavlovsky: "The condition of your work and status is that, at any moment, a criminal case can be opened against you. It's the loyalty of fear: 'As long as you're afraid of me, I trust you.'"

Within 24 hours of Ulyukayev's detainment, Vladimir Putin fired him from his position as economic development minister. Under house arrest, Ulyukayev now awaits his trial and its potentially grave consequences.

Original url: https://www.themoscowtimes.com/2016/11/15/the-loyalty-of-fear-a56159