

EXHIBIT 9

PUTIN'S KLEPTOCRACY

Who Owns Russia?

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Simon & Schuster Paperbacks

New York London Toronto Sydney New Delhi



Simon & Schuster Paperbacks
An Imprint of Simon & Schuster, Inc.
1230 Avenue of the Americas
New York, NY 10020

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First Simon & Schuster paperback edition September 2015

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Cover design by Flag Tonuzi

Manufactured in the United States of America

1 3 5 7 9 10 8 6 4 2

Library of Congress Control Number: 2014948969

ISBN 978-1-4767-9519-5
ISBN 978-1-4767-9520-1 (pbk)
ISBN 978-1-4767-9521-8 (ebook)

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chief of base and chief of station in countries of the former Soviet Union. When Palmer gave his testimony in September 1999, Putin was not yet president, but he was prime minister, he had been head of the successor organization to the KGB, the Federal Security Service, and he had been investigated on a number of occasions for high-level corruption and criminal activity.

Of course, there were those in the Russian government who were aware of the problem and had tried to correct it. On February 18, 1992, for example, the Yel'tsin-Gaidar government signed an agreement with an American corporate private investigation firm, Kroll Associates, to track down and help repatriate money illegally held or taken abroad by former Communist Party and Soviet government agencies, including the KGB. The money had allegedly left the country prior to the August 1991 attempted coup against the reformist-oriented Gorbachev by conservatives in the highest echelons of the ruling Communist Party and the KGB.¹³ A group of Central Committee officials, including the head of the Party department dealing with the defense industry, the head of state television and radio, and the deputy head of the committee in charge of privatizing state property, were all dismissed after revelations about their involvement in embezzlement and capital flight. Several of them had also been involved in efforts during the Gorbachev period by a so-called patriotic wing of the special services to organize various provocations to undermine Gorbachev and prove that his reforms needed to be halted. Yegor Gaidar, who at that time was the minister of finance, stated that this kind of activity was not only illegal but constituted continued political resistance to the government's economic reform efforts: "Last year saw large-scale privatization by the nomenklatura [the high-ranking elite], privatization by officials for their own personal benefit."¹⁴ The *New York Times* reported that the office of the Russian procurator general had been "unable to penetrate the maze of hidden bank accounts and secret investments, left behind by party officials acting in some cases . . . with the cooperation of the K.G.B. . . . One estimate for the party's hidden assets is \$50 billion."¹⁵ Kroll, which had also led the hunt for stolen funds from the Marcos regime in the Philippines and Saddam Hussein's invasion of Kuwait, was reported to have "found that thousands of mostly offshore bank accounts, real estate holdings and offshore compa-

nies had been set up to launder and shelter these funds and what had been the Soviet Union's gold reserves."^{16*}

In response to this report and their own investigations, the Yel'tsin government passed a law giving it the right to confiscate funds taken abroad illegally. Yel'tsin was receiving monthly updates from Kroll; the lower house of the Russian Supreme Soviet, the Council of Nationalities (as it was called until December 1993), demanded that the Foreign Intelligence Service[†] provide a report on Kroll's progress, which *Izvestiya* reported was provided in a closed session by First Deputy Director Vyacheslav Trubnikov.¹⁸ The Supreme Soviet Presidium had decreed that a special commission be established by the procurator general to investigate corruption, abuse of power, and economic offenses. Its report was presented to the Supreme Soviet in September 1993. In it Kroll's efforts were noted; the document recounted widespread instances of "bribery of officials, blackmail, and the illegal transfer of currency resources to foreign banks," with specific ministers sanctioned by name, including Minister of Foreign Economic Relations Pyotr Aven (whose activities in approving Putin's early contracts as

*Joseph Serio, an American seconded to the Organized Crime Control Department of the Soviet Interior Ministry in 1990-91 who went on to head Kroll's operations in Moscow, reached similar conclusions. On this subject and the global spread of Russian organized crime that occurred in parallel at this time, see Handelman (1995), Klebnikov (2000), Friedman (2002), Varese (2001), Gerber (2000), Williams (1997), and Shelly (2004).¹⁷

† When the KGB was broken up after its involvement in the 1991 coup attempt against Gorbachev, several separate security institutions emerged with different functions. The Foreign Intelligence Service (Sluzhba Vneshney Razvedki, SVR) was formed out of the First Directorate of the KGB and was responsible for external intelligence. The Federal Agency of Government Communications and Information (Federal'noye Agentstvo Pravitel'svennoy Svyazi i Informatsii, FAPSI) was made responsible for electronic surveillance. FAPSI was the rough equivalent to the National Security Agency in the United States. It existed until 2003, when Putin reunited it with the FSB. The Main Administration for the Protection of the Russian Federation (Glavnoye Upravleniye Okhrany, GUO) came out of the Ninth Directorate of the KGB. It was renamed the Federal Protective Service (Federal'naya Sluzhba Okhrany, FSO) in 1996. It is roughly equivalent to the U.S. Secret Service and is responsible for the protection of high-ranking officials, including the president. The Ministry of Security was formed out of the internal security functions of the KGB and was responsible for domestic and border security. It was reorganized in December 1993 into the Federal Counter-Intelligence Service (Federal'naya Sluzhba Kontrrazvedki, FSK). The FSK was then reorganized into the current-day Federal Security Service (FSB) in April 1995, and it was the FSB that Putin took over as director in 1998.

head of the St. Petersburg Committee for Foreign Liaison* are dealt with below). The report also criticized the Ministry of Security (the precursor of the FSB) for the fact that while it had opened three hundred investigations in the first six months of 1993 alone, only “two criminal cases had been instituted in practice.”¹⁹ In theory, in both Yel’tsin’s camp and in the Communist-dominated legislature, everyone was seeking to stanch the flow. But nothing happened in practice. As one of Kroll’s investigators stated, the report raised “suspicions about certain players and institutions [in the former Soviet Union]. Our problem is that when we sent it to Moscow, it was never followed up.”²⁰

This image of high-level culpability was reinforced when U.S. law enforcement intercepted telephone calls in the United States from the highest officials in President Yel’tsin’s office, Prime Minister Viktor Chernomyrdin’s staff, and other ministers to and from the head of the Russian firm Golden ADA, established in San Francisco, linking the firm to various scams that collectively added up to almost \$1 billion.²¹ The size of the scams is suggested by the fact that in 1994 Golden ADA had a *declared* taxable income in the United States of \$111,485,984, according to U.S. court documents.²² FBI records show that the FBI turned over to Russia information linking Golden ADA with Yevgeniy Bychkov, the chairman of the Russian Committee for Precious Gems and Metals, and Igor Moskovskiy, a deputy minister of finance. Eventually, in 2001, with documents provided by FBI wiretaps, as the FBI website wryly states, both “were convicted of abusing their state positions and immediately granted State Duma amnesties.”²³ At an Aspen Conference in St. Petersburg in the early 1990s, I asked a high-ranking U.S. government official, “How many Russian government ministers have bank accounts abroad in excess of \$1 million?” The reply came back immediately and without hesitation: “All of them. Every last one.” This was the general view of what was going on throughout the entire country at the time, a view reaffirmed by subsequent Russian journalistic investigations.²⁴

*Komitet vneshnikh svyazey—KVS, also sometimes referred to as the Committee on Foreign Economic Relations, or External Relations.

sequently identified as Peter Bachmann.⁷⁰ Dzhikop received a tender for rare earth metals in which the sale price was up to two thousand times lower than world market prices, leading to condemnation by the St. Petersburg City Council of the “criminal nature of the terms and conditions of the agreement” and to the conclusion that it was not surprising that the company “self-dissolved” and put the “total revenue in accounts of foreign banks.”⁷¹

Vladimir Pribylovskiy subsequently stated that Dzhangir Rahimov was behind the company and he was the brother of one of Putin’s classmates from Azerbaijan and closest friends, Ilham Rahimov.⁷² Putin’s coworker in Dresden and biographer claimed that while in Dresden Putin had found a way to visit “his lawyer friend (and possible classmate)” in Azerbaijan and had come back horrified at the complete failure of Soviet policy there—instead, Putin reported, “nepotism among clans was just like the nepotism in the Party’s higher ranks, so evident within the ‘civilized’ part of the USSR—in Russia.”⁷³ A 2012 *Forbes* Russia investigation into the relationship between Putin and Ilham Rahimov confirmed that they had been classmates and friends in the Law Faculty at Leningrad State University; Putin often stayed in Rahimov’s dorm room and they shared a love of judo. Presidential spokesman Dmitriy Peskov confirmed to *Forbes* Russia that the two had indeed been friends at university. *Forbes* Russia listed Rahimov’s net worth in 2012 at \$2.5 billion.⁷⁴

The documents used by the Sal’ye Commission show Putin’s guiding hand in these activities. He signed contracts at below-market rates; he intervened with Moscow to gain the authority to sign export licenses; he intervened to override the objections of the head of customs, who had refused to open the border because the paperwork was not in order.⁷⁵ His signature is on all of these documents.

After all of this feverish activity, according to the Sal’ye Commission report, the \$122 million of quotas that Gaidar had granted Putin’s KVS translated into two tankers of cooking oil delivered by a company called Tamigo, registered in Germany, with a Petersburg-domiciled general director, G. N. Misikov.⁷⁶ As the press subsequently reported, the tanker “trun-

dled into St. Petersburg on February 3, 1992. The arrival of this cooking oil was a sufficient triumph for Putin to write Gaidar on February 6 to inform him of it.⁷⁷

In acting on the results of the investigative report by the Sal'ye Commission, the St. Petersburg City Council could not have been clearer in assigning blame and suggesting remediation. In a paragraph that Investigator Andrey Zykov was subsequently to call "the control shot to the head,"⁷⁸ the Council recommended that the documents be turned over to the Procurator General's Office for prosecution: Putin was accused of "showing complete incompetence, bordering on bad faith in drafting contracts . . . and an unprecedented negligence and irresponsibility in the submission of documents to the parliamentary group."⁷⁹ The Council recommended that Putin and his deputy be "removed from their posts"⁸⁰ and that the "right of the Committee for Foreign Liaison to conduct business be withdrawn."⁸¹ Procurator Vladimir Yeremenko sent a representation to the mayor proposing that he start an investigation of "the Committee for Foreign Liaison's improperly drawn-up contracts and false registration of some licenses."⁸²

The report was passed on to Moscow, to fellow Petersburger and corruption crusader Yuriy Boldyrev, chief of the Main Control Directorate of the Presidential Administration, who investigated the matter. He issued a statement on March 31, 1992: "The Main Control Directorate has received documents from St. Petersburg city council representatives attesting to the necessity of removing the head of the city's Committee for Foreign Liaison Vladimir Vladimirovich Putin from his post. I request that the question of appointing him to any other post not be raised before the Main Control Directorate reaches its final decision regarding this issue."⁸³ He called to Moscow Sobchak and all his deputies, including Putin, and they wrote down their version of events. Boldyrev recalled, "There were enough material facts that checked out."⁸⁴ He requested of Minister of Foreign Economic Relations Pyotr Aven, who had already reinstated Putin's right to issue licenses, that Putin not be given any further authority until the case was finally settled.⁸⁵ As part of the investigation, Yel'tsin's federal representative to the St. Petersburg and Leningrad *oblast'* was asked to assist. Bold-

Yrev also requested documents from Putin and his KVS and found the level of cooperation so lacking that he wrote Putin on February 12, 1992, "I have been sent documents that are incomplete, and are not relevant to my request to the point that it is not possible to draw any conclusions. I was not even sent a copy of the licenses or copies of the contracts, which should be at least thirteen. I have been delivered only two documents, one of which is in Finnish, which at the very least is unjust on your part. I demand the presentation of a full set of documents by February 17."⁸⁶ Boldyrev also reported the entire case to Yel'tsin, who, like Minister of Foreign Economic Relations Pyotr Aven, ultimately did nothing.*

No one was able to unseat Putin or oblige Mayor Sobchak to discipline his own deputy. The local procurator general also declined to take up the case. The KVS continued to function as before, and even after Putin was promoted to first deputy mayor in March 1994, he held on to his function as chairman of this committee. The Council's report asked Sobchak to consider the position of both Putin and Putin's deputy, Aleksandr Anikin. In response Sobchak didn't fire Putin, but Anikin did lose his job. Anikin's own deputy, Aleksey Miller, was promoted to take his place.⁸⁹ In 2000 Putin would appoint Miller as deputy minister of energy, and then in 2001 as head of Gazprom, a position in which he was widely reported to have acquired vast wealth.⁹⁰

While Putin temporarily lost the right to grant contracts, this authority was once again reinstated by Minister Aven later in 1992.⁹¹ Once he regained his authority, he granted licenses to those, like Vladimir Yakunin and Andrey Fursenko, with whom he would ultimately be associated as co-owners of the Ozero Cooperative.⁹² Yel'tsin disbanded the national leg-

* Aven left the government in 1994 and has risen to be first president and then chairman of the board of Russia's largest private bank, Alfa-Bank. In 2014 *Forbes* estimated his net worth as \$6.2 billion.⁸⁷ As for Boldyrev, who had been a key democrat in the early 1990s and an initial ally of Sobchak, he lost his position in the Main Control Directorate of the Presidential Administration and went on to fight against corruption as a member of the Federation Council and a member of the Federal Audit Chamber. He became a founding member of the liberal Yabloko Party and fell out with Sobchak after 1993. Despite the fact that he represented St. Petersburg, by his own testimony Sobchak and Putin worked against him: "In 1994–5 when I was one of two representatives of St. Petersburg in the Federation Council, I never got the chance to speak live on St. Petersburg television."⁸⁸