

MARTIN SIXSMITH

PUTIN'S

OIL

A silhouette of an oil pumpjack is integrated into the bottom right corner of the word 'OIL'. The pumpjack is positioned within the vertical stroke of the letter 'L', appearing as if it is part of the structure of the letter.

THE YUKOS AFFAIR AND
THE STRUGGLE FOR RUSSIA

PUTIN'S OIL

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Putin's Oil
*The Yukos Affair and the
Struggle for Russia*

Martin Sixsmith



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Introduction

The war between Russia's two most powerful men turned to violence in October 2003. President Vladimir Putin had had enough. A detachment of machine gun-carrying troops was despatched to intercept Mikhail Khodorkovsky's plane — with force if necessary — on the runway of a Siberian airfield. Within hours, the richest man in Russia was hauled back to Moscow with handcuffs on his wrists and a black canvas hood over his head. Putin had flexed his political might, but Khodorkovsky held the key to Russia's economy with control over vast swathes of its vital oil resources. Putin wanted his oil back; Khodorkovsky wanted to be President.

In the months leading up to the October confrontation, Mikhail Khodorkovsky had parlayed his Yukos Oil company into easily the most powerful in Russia and one of the biggest players in the world. Then he invited the Americans to share the oil and launched a brazen campaign to usurp Putin's political power. Khodorkovsky deployed his fabulous wealth to finance several parties in Russia's parliament and spoke openly of using them to lever himself into the Kremlin. In a dramatic showdown in Putin's offices, the two men traded insults, angrily accusing each other of corruption.

Vladimir Putin was horrified. He knew crushing Khodorkovsky and confiscating Yukos would make him the bogeyman of liberals and the West; it would make him look a capricious tyrant and scare away investors. But he knew oil was the key to the country's future and without it he would be nothing. Rocketing prices and Russia's massive reserves proved he was right: under Putin, Russia's economy went from basket case to cash cow; Moscow could punch its weight on the international stage, blackmail other states with oil and gas blockades, and resume its seat at the world's top table.

But the price was a high one. The Yukos confrontation was deftly managed by the hardliners in the Kremlin: they used it to cement their victory over the forces of liberalism. And because of it, they seized control of Russia's future. Their devotion to the supremacy of the state curtailed individual rights. Freedom and democracy were undermined, opposition crushed.

While Putin's new role as Prime Minister following the 2008 elections perpetuated his hold over the political machine, his nemesis — from his cell in a Siberian labour camp — continued to plot his downfall. The company Khodorkovsky built launched an unprecedented legal challenge, suing the Kremlin for \$50 billion for the assets it claims Putin stole from it. For its part, the Kremlin brought new charges against Khodorkovsky that could keep him in gaol for thirty years, and the Englishman who took the helm when Yukos's other bosses were sent to the gulag died in an unexplained helicopter crash.

The company's war against the Kremlin has since been taken up by a troika of mild-mannered, middle-aged Britons, pursued by Interpol arrest warrants and by Moscow's fury.

Putin's Oil is based on material gathered during two years' research in Russia, the United States, Britain and Israel. Most of the information in the pages that follow comes from first-hand sources, including interviews with many of those who played leading roles in the confrontation between the regime and the oligarchs, and documents that both sides have previously struggled to keep secret. Many interviewees agreed to speak to me on the record and their names and words are quoted directly; but others have spoken only on condition of anonymity and the information they have provided must go unacknowledged for reasons of personal safety.

I have endeavoured to use my experience of Russia — three decades as a regular visitor and six years living there, first as a student then as a journalist — to disentangle the conflicting accounts, interpretations and misleading claims surrounding this remarkable story. What has emerged is a disturbing psychological portrait of two ruthless men whose struggle for the soul of Russia has set her on a political course that increasingly threatens the West. At the heart of their rivalry is oil, the black gold that decides the fortunes of politicians and nations alike and fosters the relentless obsession that drives them to seek the greatest of prizes.

PART ONE

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Flight to the east

Friday 24 October 2003.

Nizhny Novgorod, 250 miles east of Moscow.

The temperature was dropping and the snowstorm closing in, but the Mercedes' climate control was equal to it: Mikhail Khodorkovsky sank deeper into the warm leather and closed his eyes. The rumble of the tyres on the blacktop of the airport highway lulled him into a half-slumber. For the past six months his head had been full of the deal and the vast stakes they were playing for; his days had been stuffed with meetings, negotiations, set-backs and breakthroughs. Now success was so close he could taste it like salt on his lips.

Visions of wealth no longer entranced Khodorkovsky but visions of power did, and the deal would bring him power in spades. In the comforting warmth of the car, he could have been forgiven for dreaming of how he would use that power; of the plans he had for himself and for Russia. The vision was an inspiring one, but events could still turn against him.

In his pocket was the letter — not even a letter, a fax — that could decide his fate. His lawyers had received it the day before, two pages of fax-blurred print stamped with the seal of the State Prosecutor's Office: 'Mikhail Borisovich Khodorkovsky is hereby summonsed to report to the following location at the stated time for questioning on suspicion of irregularities in the tax regime of the Yukos Oil Company . . .'

The document bore the signature of Vladimir Vasilievich Ustinov, Prosecutor General of the Russian Federation, but Khodorkovsky knew who was really behind it. He had been called to Moscow with less than twenty-four hours' notice. Putin was toying with him.

The car began to slow. Khodorkovsky glanced into the darkness and saw the lights of Nizhny airport at the end of the highway. His watch told him it was nearly 10 p.m. . . . and the time of his scheduled appearance before the President's interrogators had been twelve midday. The die was cast.

The drama that unfolded that evening would unleash a shattering confrontation between powerful men with sharply differing visions for their country's future. It has become a part of Russia's political folklore, but the details of what happened in the snows of Siberia have remained shrouded. The account which follows is based on the testimony of several of those who took part in it.

At the gates of the airport, Khodorkovsky's Mercedes passed through the security check and pulled onto the runway. A TU-134 bearing the colours of no airline was standing in a corner of the airfield, out of sight of the passenger terminal. A short, stocky man in a pilot's jacket hurried down the aircraft steps

and stood to attention on the tarmac: 'Welcome back, Mikhail Borisovich. Sorry to hurry you, sir, but we have a limited window before the storm closes in. I've got the engines running.'

Khodorkovsky thanked the man and said he would board immediately. But on the steps he hesitated and turned back, 'Pyotr . . . Have you filed the flight plan?'

Pyotr had been flying the boss for months; he could tell something was wrong.

'Yes, sir. Irkutsk, with a re-fuel at Novosibirsk. Like you said.'

Khodorkovsky put a hand on his shoulder.

'That's right. Tell me, though: would we have enough to get to Finland?'

The pilot thought for a moment.

'Yes, sir. We could make it to Helsinki. But we'd have to file a new plan, and I'm not sure . . .'

Khodorkovsky waved his hand.

'Don't worry. I was just thinking aloud . . .'

On board, he asked for a beer and took it to his private lounge at the front of the plane. He was scared of flying, always had been, but the cabin was bathed in soft light and a Mozart divertimento was playing discreetly on the sound system.

Khodorkovsky breathed deeply and made an effort to relax. Broad seats in beige leather were clustered round a low table; on it were the details of his itinerary for the current tour. This evening he had dined with a former Russian Prime Minister in Nizhny. Tomorrow in Irkutsk he would visit the Yukos regional office, open a new institute for young students of politics and sociology, and make a speech entitled 'State power, business and society' on the nexus between big money and political power. Then it was on deeper into Siberia to visit the Governor of Evenkia province and tour the new oil fields they would acquire once the Sibneft merger was completed . . .

The thought would have given Khodorkovsky a shiver of satisfaction: the Sibneft fields were the final piece in the jigsaw. The new conglomerate would be by far the biggest in Russia and number two or three in the world. With that sort of clout, there was no way the Americans could turn him down. He would draw them into a strategic partnership, and Western partners in the firm would make it safe from the claws of the Kremlin — would make *him* safe from the Kremlin. But that was the problem: it was beginning to look like the Kremlin was coming after him . . .

He called Alex to come forward to the lounge and offered him a drink. Alex refused politely and slid his copy of the Prosecutor's fax onto the table. Khodorkovsky looked at him. 'Yes, I know, Alik. But what can we do? It's a trap, isn't it?'

Alex was a lawyer and he didn't rush to judgement. 'Yes, it could be. Or it could be just some routine the Prosecutor's boys are using to annoy us. They like playing those sorts of tricks.'

Khodorkovsky sipped his drink and looked out the window. The engines were getting louder; takeoff would not be long delayed. 'Yes, maybe. But I think they could be pulling a repeat of what they did to Platon. They're scared of us, Alik. *They're scared of us.*'

Alex nodded slowly. He was a cautious man and the boss's bullishness was a cause of worry to him. Platon Lebedev was in gaol with little prospect of getting out. It was a bad business. The tax charges were getting serious and attempts to get Lebedev bail had been turned down flat. More difficult still were the charges against Pichugin: Putin's men were trying to pin a multiple murder rap on him that could mean a life sentence in the camps. Worst of all, Alex was worried the boss himself was in imminent danger. He knew the other arrests had been a warning — the Kremlin wanted to intimidate Khodorkovsky and make him toe the line — but the threats and coercion seemed to have increased his determination to carry on. He was proud and stubborn: Alex knew those were the qualities that had brought his stupendous success in business; but they were also the qualities that could bring him down with a fatal jolt.

'If I may express an opinion,' he ventured, 'I think they've decided you are too rich and too powerful. They don't like you thumbing your nose at them. They're like mafia godfathers and you're not showing them the respect they think you owe them.'

For the first time in the conversation, Mikhail Khodorkovsky laughed, as if the thought of disrespecting the President of Russia was an amusing joke. Stretched out in the plane's padded armchair, he reminded Alex of a panther at rest, relaxed for a moment but always ready to pounce: his short lean frame beneath the grey Kashmir sweater and black jeans; his hazel eyes restless and alert behind the thin-framed spectacles; his close-cropped hair, prematurely grey from God knows what trials and worries, gave him the confident air of an athlete buoyed by the glory of an illustrious career.

'I'm not laughing at you, Alik,' he said. 'It's just the thought of Putin's mob as godfathers . . . You know I'm not good at respect. They checked I was out of town before they sent the summons; they knew I'd have to drop everything to get back; so what are they playing at?'

Alex thought for a moment.

'I'm not sure. But to be honest, I don't like it. As soon as we got the letter, we told the Prosecutor you wouldn't be able to attend, but we've heard nothing from them. Don't you think maybe we should go back and talk to them? Find out what they want and give our side of things?'

Khodorkovsky was serious now.

'Yes, I thought of that. But look what happened to poor Platon. I even thought of telling Pyotr to turn the plane round and fly us out of the country. But that means surrender, and I don't do surrender. Going back to Moscow would be bending the knee to Putin . . .'

The plane had reached the runway and the engines were revving.

Khodorkovsky's final words were drowned by Pyotr's voice over the tannoy:

'I'm sorry, guys. The control tower's just denied us takeoff. Some sort of technical problem. We've got to turn round.'

Into Siberia

Khodorkovsky and Alex exchanged glances. The same thoughts were racing through their heads, but neither spoke. Khodorkovsky had the mind of a chess player and it was almost certainly calculating the coming moves in a dangerous game, thinking of his colleagues and friends in gaol, thinking of the man who had put them there: Vladimir Putin had relied on Khodorkovsky and the other oligarchs when he was climbing the ladder to ultimate power, but he had cast them aside once the Kremlin was his. Other disinherited tycoons, Berezovsky and Gusinsky, had fled abroad. Abramovich had swallowed his pride and taken Putin's shilling. Only he, Mikhail Khodorkovsky, remained resolute. Now he would stand his ground to the end.

The engine roar subsided and the plane rumbled over the uneven runway, back to the control tower that had relayed the orders, he was convinced, of his enemies in Moscow. Putin's tentacles were reaching out for him now, and he felt very alone. He had been expecting something to happen, but now that it was upon him he was seized by unaccustomed anxiety. He made himself think of Platon Lebedev in gaol and of Alexei Pichugin facing life in the camps. His anxiety turned to indignation — it wasn't Lebedev and Pichugin who had insulted the President; they had not sought this confrontation, but they were paying for the actions of their boss. He thought of his own family — Inna and the children: Nastya his daughter and the twins Gleb and Ilya; his older son Pavel from his first marriage. He struggled to block out the premonitions; he felt his hand gripping the arm of the chair.

The plane came to a halt, the lights went up and Pyotr came through from the cockpit.

'They won't let us go, boss. Problems with the runway, they say. I'm not sure I believe them, but I can't take the risk.'

Khodorkovsky nodded and asked if they'd said how long the delay would last. An Aeroflot jet roared past them on the runway and lifted off into the night. The three men looked at each other; Alex put their thoughts into words. 'So that's it, then — the runway's OK for everyone except us!'

Pyotr went to the cockpit to call the control tower, but came back to say he could get no sense out of them. An hour went by. The snowstorm had still not materialized and other planes were taking off, but flight control kept them on hold.

At midnight, Khodorkovsky motioned for Alex to leave him for a moment and picked up the phone. He needed to speak to Nevzlin. His fingers were shaking and he had to dial twice, but the call went through. Leonid's voice sounded

gratingly relaxed, as if the sunshine and safety of Israel had lulled him into a misplaced nonchalance.

‘Misha, where are you? I thought you were on the sunny Siberia tour . . .’

Khodorkovsky was abrupt.

‘Listen, Leonya. I’m on the plane. In Nizhny. They won’t let us take off. I think it’s happening.’

Alert now, Leonid Nevzlin was on the boss’s wavelength.

‘OK, Misha. Got it. I’m driving back to Tel Aviv. I can contact the media . . . or the Americans.’

Nevzlin had been his right-hand man for twenty years and Khodorkovsky trusted him like a brother, but they both knew their call was being monitored.

‘Don’t do that yet, Leonya. And don’t ring Inna. Ring Drel and tell him what I’ve told you. Then wait to hear from me. If things work out, I’ll call you in the morning.’

Khodorkovsky put the phone down and walked through the curtains to the rear cabin. Rows of standard aeroplane seats lined a central aisle and the lights were bright. The plane would normally be filled with Yukos staff — secretaries, officials, public relations people — but it was a Friday night and he had sent the bulk of them back to Moscow for a weekend at home. Apart from Alex, there were only the security men left. They fell silent as he entered the cabin. Khodorkovsky gave his usual diffident smile.

‘Listen, lads. You’re probably wondering what we’re doing here, sitting like a beetle under a boot. To tell you the truth, so am I. You can see we’re the only ones being held here. I’m afraid something’s up and I want you all to be ready . . .’

The bodyguards nodded apprehensively. They were asking for his instructions as the tannoy spluttered into life again. This time Pyotr sounded relieved.

‘Panic over, folks. We’ve got the clearance. Get your belts on and let’s get the hell out of here.’

The bodyguards began to laugh; the nervous tension drained away.

Once the plane was airborne, Khodorkovsky asked to be left alone but could not switch off. He spent the five-hour flight to Siberia trying to sleep and failing to do so. His mind was turning over memories from years past, trying to pin down what had turned Putin so implacably against him.

He re-ran the meeting in the Kremlin when he had publicly accused the President of condoning corruption and enriching his cronies: in retrospect he knew he had gone too far, but his anger and indignation had been real. He chewed the details of the Sibneft merger and the subsequent negotiations with the Americans, and he knew Putin felt threatened by both of them.

He laughed as he pictured the surprise he’d caused by hinting at his own presidential ambitions, and the extent of the Kremlin’s wrath over his funding of opposition parties in the national parliament. He had bearded the lion, that

was for sure, and now he would have to live with the consequences. The stakes were high and he was damned if he was going to blink first.

The engines throbbed and droned, pulling them eastwards towards the source of his wealth and future power, but Khodorkovsky was restless. He had just dropped off to sleep when the intercom woke him.

'Landing in fifteen, everyone. Novosibirsk and a re-fuel. Then on to Irkutsk. It's going to be cold, guys!'

Pyotr's voice had regained its usual jauntiness — he always sounded as if he was going to come out with a dirty joke over the tannoy — and everyone on board was cheered to hear it. The plane started its descent through heavy cloud. Landing time at Novosibirsk's Tolmachevo airport was later established as 5.07 a.m. It was Saturday 25 October 2003.

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'Put down your guns!'

The landing was a firm one as Pyotr strove to avoid skidding on the snow-brushed runway. A noisy reverse thrust from the engines slowed the plane to walking pace. The pilot car appeared out of the morning murk and led them onto the taxiway.

Mikhail Khodorkovsky smiled as Pyotr began his usual intercom monologue about the hot breakfast he was looking forward to, mixed with a running commentary on the stupidity of the airport ground staff who were leading them away from the terminal towards a parking slot on the outer edge of the airfield.

'It'll take them ages to get the tanker out here, boys. Better put your feet up for a while. The coffee and sausages'll be freezing by the time they get here . . .'

The plane was waking up with the usual banter in the aisles and Khodorkovsky was stretching before going outside for a walk, when the tannoy clicked and crackled. Now Pyotr was not laughing.

'Shit, lads. Look out the port side. What the hell's going on there? They're in front of us too . . . and to starboard . . .'

Khodorkovsky pulled up the blind and saw them. Interior Ministry trucks had surrounded the plane and black-uniformed troops were taking up position with automatic weapons. The troops were from the anti-terrorist Alfa group of the KGB's successor, the FSB. Khodorkovsky cursed himself for being naïve. It had been a false reprieve at Nizhny — the two-hour delay was to give the FSB time to get here!

The troops had advanced now and a couple of terrified airport staff were pushing the ladder toward the plane's forward door. Within seconds the soldiers were banging on the fuselage and Pyotr was asking him what to do. Khodorkovsky said they didn't have much choice, but told him to wait before opening the door while he had a word with the security men.

Resistance would be pointless, of course; but equally he did not want to give the army the chance to get him in their gun sights. His bodyguards were veterans of Afghanistan or Chechnya; he knew he could rely on them. He told them he was going to order the door opened and asked them to take up position in the front cabin. They were not to use their guns, but they should make sure the troops did not storm the plane and open fire.

With the men in place, Pyotr unlocked the external door and was swept aside by a stream of soldiers yelling, 'FSB. Hands up! Don't move! Guns down! Guns down, now! Get your guns on the floor!'

The Yukos men made their counter demand.

'OK. But first you agree there won't be any shooting.'

The sergeant in charge of the soldiers yelled back.

'I said, put your guns down! Put them down or we shoot!'

The moment was tense, but Khodorkovsky seemed calm. Once it was clear the troops had been sent to make an arrest not carry out a massacre, he walked slowly through the aisle of the plane.

'I think it's me you've come for, isn't it? Let's put down the guns and get on with it, shall we?'

The sergeant was quieter now. He told his men to collect the Yukos guns and nodded to a corporal who went down the aircraft steps, reappearing a moment later with two military policemen. They placed handcuffs on Khodorkovsky's wrists and pulled them tight, while his disarmed bodyguards were taken to the rear of the plane. The sergeant spoke into a walkie-talkie and informed his commander that the target was now a prisoner.

Khodorkovsky was searched and told to put on his overcoat, but this proved impossible with the handcuffs in place. They were removed and put on again once he had pulled on his fleece and blue woollen coat. The sergeant relaxed visibly. In response to Khodorkovsky's questions about who had ordered his arrest and on what charges, he shrugged his shoulders and said, 'That's nothing to do with me. You'll be seeing the cops soon enough and they'll tell you.'

The soldiers produced a black canvas hood and told the prisoner to put it over his head for the transfer to military transport. When Khodorkovsky protested, the sergeant said he was following orders, but he didn't think it would have to stay on long: they were taking him to the airport militia post where he would remain under guard until they were ready to fly him back to Moscow. A little less than fifteen minutes after he had landed in Irkutsk, the prisoner was marched down the aircraft steps flanked by the two policemen and guided across the tarmac to a waiting bus.

After two hours in an unheated police cell, and having received no response to his requests to telephone his lawyer, Mikhail Khodorkovsky, the richest man in Russia, at the head of vast swathes of its vital oil reserves, was marched in handcuffs with a hood over his head to the steps of a waiting transport plane. A six-hour flight through the snowstorms that were now blanketing Russia would bring him to Moscow and a date with President Putin's State Prosecutor.

PART TWO

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Boy from the Komsomol

In many ways, life had treated Mikhail Khodorkovsky well. He'd been lucky in most things and where he hadn't, he'd made his own luck. He'd turned 40 a couple of months before he was arrested — born in 1963 to a Jewish father and an Orthodox Christian mother. He never considered himself particularly Jewish but everyone else did, and that perception played a role in the way he was treated in life.

The Khodorkovskys were a professional family; both his parents were chemical engineers. When their son was born, they were living in communal housing on the outskirts of Moscow, but had later been allocated a two-room apartment of their own.

Young Mikhail, or Misha as he was known, was a brilliant student. He entered the Mendeleev Institute of Chemical Technology and excelled in his studies. Sensing that his Jewish roots would make life difficult for him, he made a point of joining the Young Communist organization, the Komsomol. It was an odd decision for a teenager with an independent mind. His mother disapproved. The Komsomol was the organization for conformists and social climbers. It inculcated the official ideology of the ruling Communist Party and discouraged questioning of the official line. For a man who would eventually become one of the most famous dissidents in Vladimir Putin's Russia, it seemed quite out of character.

But the young Khodorkovsky had his own agenda and he was looking to the future: the Komsomol was going to be his way of opening doors that were accessible only to those with an entrée to Soviet officialdom. It would allow him to follow the business career he wanted, in a society that banned private enterprise. By the end of his second year at the Mendeleev Institute, he was already the Komsomol branch secretary.

His fellow students from those years remember Khodorkovsky as a serious young man who did not come to their parties and did not get drunk. He was neither a culture vulture nor a voracious reader — he later said his education in literature and the arts began only in the tranquillity of his prison cell — but he was dedicated to his scientific studies: when it came to chemical engineering and technology, he was a swot.

In his teens and early twenties Khodorkovsky was physically attractive and naturally charming. Women fell for him in a big way. Still a student, he found himself married with a baby son to support. Looking back two decades later, he spoke of how difficult it was for a young family in the declining years of Communism:

Today's young people do not remember what life was like for us in the Soviet Union before the start of Perestroika. I sometimes find it difficult to explain that rising prices for goods are not the most frightening thing in life. It is worse when you walk into a store and there is simply nothing there to buy. My first son [Pavel], who is now 18 years old and attending college, was born at that time. We had ration coupons — they were little cards — and I had to get baby food for him with these coupons. Sometimes, the baby food wasn't delivered to the store. It was good when we had a bit stocked up at home, and it was a good thing that we lived in Moscow, where the food situation was easier. Nevertheless, every morning at 6 a.m. I had to go to the place where they were selling this baby food. And if they ran out, there was nowhere else to buy it. I don't wish any of you who have, or will have, children to go through something like this.

Despite his Komsomol position, Khodorkovsky was abundantly aware of the defects of the Communist economic and political system. He would later identify this awareness as the motivating force behind his efforts to succeed in business and — ultimately — to use that success to transform Russia socially and politically:

In those years [the 1980s], we dealt with several challenges facing us here in Russia. We dealt with the question of private property. Today, in Russia like everywhere else in the world, all of the people have the right to private property. It seems like such an ordinary, natural right. And yet, in those years you could end up in gaol for that. We as citizens were denied true voting rights, the right to create political parties, or to participate in public life. Not only did we not have these rights, we would definitely have ended up in gaol or in a mental hospital if we had tried something like that.

Khodorkovsky, of course, was smart enough not to 'try something like that'. As a Communist insider he saw how political dissidents would batter their heads against the regime and end up crushed and defeated. His plan was much more long term: by working *with* the system, he would build himself into a position where he could change it.

Khodorkovsky says his work in the Komsomol taught him to lead people and get things done: he was in charge of the Institute's logistical organization — the canteen, the bar, student loans and work brigades. He claims he never personally persecuted those who opposed the status quo — he had 'no blood on his hands' — but he did believe the Communist propaganda that Russia was surrounded by enemies in the capitalist West. His view changed only when he went on his first trip abroad. Because of his position in the Komsomol, Khodorkovsky was allowed to travel to Paris, where he found the capitalist world far removed from the evil stereotypes he and his generation had been fed by the Kremlin. He returned to Moscow with a lifelong admiration for Western values and Western successes, and with a burning desire to introduce them to his homeland.

His first chance to do something about it came in 1986. Khodorkovsky was

23 years old when the new President, Mikhail Gorbachev, loosened the grip of the state over the economy and announced that small businesses — known as cooperatives — would be allowed in certain spheres, such as bakeries, cafés, tailors and taxi firms. Khodorkovsky seized the opportunity that Perestroika offered. With another young Komsomol official, Alexei Golubovich, he opened a private café in his local Komsomol headquarters under the patronage of the organization's well-connected directors. Golubovich's parents held senior positions in the State Bank of the USSR — the only bank that was allowed to operate in Soviet times — which administered all the country's payments including salaries, state subsidies and pensions. Such connections were invaluable to young men in a hurry, and they exploited them for all they were worth.

Golubovich would later become one of the 'Magnificent Seven' partners who worked with Khodorkovsky throughout his business career, but other members of the group were suspicious of him. Many years later, when it appeared that one of the Band of Brothers had become a traitor and was helping the Kremlin in its efforts to destroy Khodorkovsky, their suspicions of Golubovich were seemingly confirmed.

By 1986, Khodorkovsky's marriage was running into problems. He was now a senior Komsomol official and as such was involved in vetting all those who came to work at the Mendeleev Institute. A pretty young laboratory assistant named Inna came to seek his seal of approval and found herself invited to come and work with him in the Komsomol bureau. They married two years later. The second Mrs Khodorkovsky was to bear him three children and accompany her husband on his breathtaking journey to wealth and power, followed by the dramatic fall from grace that left her sitting at home waiting for his return from the Siberian labour camps.

After the success of his student café, Khodorkovsky's next venture in 1987 was to set up an 'educational' cooperative, exploiting a clause of Gorbachev's newly liberalized Perestroika economy that allowed state universities and colleges to form research and development centres in their specialist fields. The aim was to further the advancement of science, but as an incentive the new bodies were permitted to use their expertise to provide services and earn an income. Khodorkovsky was quick to spot the opportunities the legislation offered. He dropped his graduate studies at the Mendeleev and reduced his Komsomol commitments in order to found the impressively named Centre for Inter-Industry Scientific and Technical Progress, known by the acronym Menatep. It was to be his first big breakthrough.

Under the pretext of aiding scientific research, Menatep provided computer programmers to service the burgeoning IT networks of state enterprises and government ministries. The young scientists of the Mendeleev Institute had skills the market needed, and Khodorkovsky had the entrepreneurial nous to make the most of them. Menatep provided a high-quality service, charged handsome fees and made considerable profits. Because IT experts were in short supply and the state could not produce enough professionals to keep

its own networks running, Menatep's services were in great demand. In 1987 Khodorkovsky had to advertise for additional programmers to join the company and placed an advertisement in a scientific journal. Three young men who answered that advertisement were to become Khodorkovsky's lifelong friends and partners in an adventure that led to the creation of the greatest business empire of the post-Soviet era.

Gathering the team

The men who joined Khodorkovsky in 1987 were, like him, in their mid- to late twenties. They belonged to a generation that resented a Soviet system which showered privileges on the Communist élite but excluded the bulk of the population from bettering their lives. In addition, they were predominantly Jewish, and the institutionalized anti-Semitism of the moribund Soviet Union redoubled their hatred of the Russian establishment.

Leonid Nevzlin was born in Moscow in September 1959 to a modest Jewish family of intellectuals. His mother taught Russian literature and his father was an engineer in the field of oil extraction technology. Leonid graduated with top marks in chemistry, physics and biology but was prevented from entering the more prestigious university institutes by the unwritten 'law of 2 per cent', which tacitly limited non-Russian (i.e. Jewish) graduates to no more than one in fifty of the student body. Nevzlin was a sensitive child and felt keenly the prejudice against Jews in Russia. Instead of one of the top academic institutions, to which his grades should have guaranteed him entry, he was admitted to the less prestigious Institute of Oil Technology in 1976 and majored in the computerized control of oil transportation.

Like Khodorkovsky, Nevzlin too was popular with women. While at the Institute he married a fellow student and had a daughter, Irina, at the age of 19. By the time he graduated in 1981, he was already divorced. His first job was at the State Institute of Overseas Geology, charged with overseeing the computer programs that the Institute depended on for its activities in the oil and gas industry.

Working with Nevzlin at the Overseas Geology Institute was a young computer programmer named Mikhail Brudno, also Jewish, also born in 1959 and also disenchanted with the attitudes of official establishment Russia. Where Nevzlin was confident and outgoing, Brudno was quiet and reserved; at university, fellow students found him intense and focused, as if he were engaged in a constant personal battle to succeed in a hostile world.

Both men felt their talents had been wasted by the anti-Semitism of a state that forced them into menial jobs instead of giving rein to their energy and entrepreneurial spirit. When Gorbachev hinted he would reverse the ban on Jewish emigration that had been in place for nearly sixty years, they began to discuss whether they should apply for permission to visit Israel, or the US.

An added complication was that by 1987 Nevzlin was married for a second time and had another young daughter, Marina, to take into account. The salary from their official job was so low that they were forced to take evening and night-time employment to make ends meet, sometimes using their software

skills but more usually doing labouring work. Brudno was also married, and he says he and his wife were often close to despair.

It was Brudno's wife, herself an experienced computer programmer, who brought the news that changed their life. She had been on a study course for programmers at the Exhibition of Achievements of the People's Economy, a vast and now rundown Soviet-era showcase in north Moscow. The course itself had been nothing special, but she had picked up a flyer containing Khodorkovsky's advertisement for IT specialists to come and work at Menatep. That evening, they discussed the idea over a bottle of wine and decided to give it a try.

When Nevzlin and Brudno arrived at the address on Menatep's advertisement, they were astonished to find themselves at the headquarters of the Frunzensky district Komsomol in downtown Moscow. They quickly discovered that Khodorkovsky and Golubovich were exploiting their Komsomol connections to legitimize a business which, though just about legal under Gorbachev's new legislation, was pushing at the boundaries of still-banned private enterprise.

Khodorkovsky explained that they would be using their skills to install new software programs in the computer networks of state institutions all over Moscow. It would be hard work and he expected the highest standards, but instead of the hundred roubles a month they were earning in their official job, they could expect to earn a thousand roubles a month, or even more. Khodorkovsky paid his programmers a fixed percentage of the fee the company received for each project and there were no limits on the amount of work they could take on. Nevzlin says it was Khodorkovsky's spirit of adventure, the fact that everyone at Menatep was so young, so full of enthusiasm and so eager to break down the stifling constraints of the old Soviet Russia, that made them put aside thoughts of emigrating . . . that and the fact that the company had no prejudices and no anti-Semitism. After a three-month trial, during which they worked part-time at Menatep while still officially employed at the Overseas Geology Institute, they found they had earned nearly four thousand roubles each. Khodorkovsky asked them to join his company on a full-time basis, and Brudno and Nevzlin did not hesitate.

When they signed on at Menatep in early 1988, Khodorkovsky told them he was also looking for a good manager to look after the company's financial and administrative affairs. They told him they had the perfect candidate. Their immediate boss at Overseas Geology had been Platon Lebedev. He was three years older than they were, born in 1956, and unlike them he wasn't Jewish. Where others in his position had been taking bribes and doing corrupt deals with clients and suppliers, Lebedev had shown himself to be consistently honest and efficient. Khodorkovsky phoned him and asked him to come to Menatep for an interview.

Platon Lebedev was a man that 'everyone loved and everyone feared', according to his friends. When there was a problem, it was always Lebedev they sent to sort it out. He was quick to anger and his rages could be intimidating, but

he was also quick to laugh and he was loyal to his comrades. Lebedev was an economist by training — he had studied at the prestigious Plekhanov Institute for Economics — and an accountant by choice. Even his enemies concede that Lebedev was a financial genius. He simply loved the work. When he came to Menatep, he moved quickly to inculcate managerial rigour where before it had been signally lacking. He put the firm on a sound financial footing and got a grip on the cash flows. A tall, imposing man with a head of prematurely white hair, Lebedev oozed authority. His facility with financial matters was to bring great benefits over the next fifteen years as the team of young entrepreneurs built up a business empire with billions of dollars passing through its books.

Shortly after the arrival of Nevzlin, Brudno and Lebedev, another recruit joined the band of entrepreneurs. Like them, Vladimir Dubov was in his twenties and full of youthful fire to succeed. He had been working at the State Institute for High Temperature Research, but it was his training as a lawyer that made him valuable to the firm. Menatep was now developing into a sizeable business and it needed legal expertise to negotiate its contracts with clients and with the state. Unlike the intense, serious-minded men he was joining, Dubov was a roly-poly bon vivant with an expansive sense of humour. He was a connoisseur of good wine and had a penchant for philosophy, but in the early days of Menatep his greatest asset was his connections. His father, the director of Moscow's grain distribution network, had friends and influence in the upper reaches of Soviet power, and Dubov Junior was able to use these to help Menatep increase its access to state institutions.

In the months that followed, Khodorkovsky, Nevzlin, Brudno, Lebedev and Dubov grew into a close-knit and increasingly powerful team. They shared the same interests and opinions and were united by a burning desire to make a success of their lives. Brudno told me they were all focused on the same goals and shared the same ruthless determination:

We had no place for emotions. Especially in crisis situations. This was why we stayed together for so many years. We were all pretty similar in how we were made. We had the same sort of characters. In a crisis, we were focused and ready for action. No place for emotions. *This is the road you take and that is the same road I take. We are together. We take care of things. We start it all rolling, and we go for it. No friends, no hatred, no enemies — nothing.* When we needed to work, work was the only thing we had time for.

Their obsessive drive to make a success of Menatep stemmed partly from the feeling that they were operating in the face of a hostile environment. Their resentment was not explicitly political or anti-Kremlin at this stage — that came later — but they blamed the state for repressing enterprise in Russia and for its ingrained anti-Semitism.

The new Menatep recruits took the business by the scruff of the neck and began to squeeze out the people Khodorkovsky had been working with before they arrived. These were largely Komsomol officials and hangers-on who had

benefited from Khodorkovsky's entrepreneurial drive but brought little to the business other than their contacts in the Communist hierarchy.

The one 'old hand' who did survive to become a partner in the new team was Alexei Golubovich. He had been with Khodorkovsky from the start and retained the boss's faith, but the others found him hard to work with and some of them were mistrustful of his motives. Even at this early stage there were doubts about his reliability.

The final member of the team to arrive was Vasily Shakhnovsky, several years after the others had come together. An electrical engineer by training, Shakhnovsky had served for six years as chief of staff to the mayor of Moscow. He brought political know-how to Menatep and saw himself as the firm's chief thinker and ideologue. Like Golubovich, he too evoked suspicions among the rest of the partners and his behaviour when Khodorkovsky was arrested years later drew sharp criticism from some of them.

For the moment, though, the big guns in the emerging enterprise were together and united. Khodorkovsky, Lebedev, Nevzlin, Brudno, Dubov, Golubovich and Shakhnovsky were the Magnificent Seven who created and owned Menatep and who would ultimately build it into a major presence on the global stage.

Computers and banks

In the ferment of the Gorbachev years, Menatep's young owners were hungry for success. They saw the Palaeolithic ice of the old Communist economy beginning to melt and they were determined to seek out the opportunities of the new spring. In seven decades of Communism, original thinking had not been encouraged and individual enterprise was repressed. So with the advent of Perestroika and the loosening of the Party's grip on the economy, very few people had the necessary experience or ability to exploit the new market freedoms.

Under such conditions, it was no surprise that the Menatep boys came into their own. Mikhail Khodorkovsky's business brain was constantly on the lookout for new opportunities, both within the official structures of the state and outside them. By the late 1980s, he had begun several new ventures that Leonid Nevzlin classifies as 'risky', but always within the strict letter of the law:

Khodorkovsky was undoubtedly a leader who kept his eyes wide open. There was a cooperative like his in every district, but without doubt he was the most successful — because he was always on the lookout for new possibilities opening up, and always trying to take advantage of them. He tried not to break the law, but if something was done that was not directly defined in law — because the legislation had not yet been developed for the transition to a market economy, for instance — well, we did things that you could say were quite risky or . . . on the borderline. We never went beyond the strict bounds of the law, because he [Khodorkovsky] had this old Soviet fear, this understanding of liability. Nonetheless, he took risks and we used *all* the new forms of enterprise.

One opportunity Khodorkovsky spotted was the massive increase in demand for modern, up-to-date computers. It was the period of the IT revolution and the need for PCs and laptops was rocketing. Mikhail Brudno recalls the flash of inspiration that plunged them into their next adventure:

There were about five, maybe six of us in those days. We were doing our programming and IT work and we had plenty of contracts to keep us busy. But then Khodorkovsky said, 'Listen, guys, let's go into selling computers. There's going to be a computer boom and everybody will be wanting them. So let's start selling them!' My answer was, 'Are you out of your mind?! What computers are you talking about?!' Computers cost crazy money back then, especially by Russian standards — one computer cost thousands of roubles. It was like — take all the money you have and buy this computer which you don't know what to do with . . . But still, we all decided — *OK, let's give it a try*. So we

bought one computer, and we'd barely started looking for a buyer when the computer got sold. We sold it at a good price and made a profit. So we decided to carry on. We would get people to bring them back from abroad, where they'd been on official business trips. They sold the computers to us and we sold them on. We assembled them, installed all the programs and software the customer required and sold them like that: all assembled and ready to use. It was good money we were earning. And that was what we did for half a year or maybe a full year.

With its usual lethargy and mistrust of any technology that could be used to break the Communist Party's monopoly on information, the Soviet state was unable or unwilling to provide computers in the sort of volume they were needed. The enterprising young men at Menatep set about making up the shortfall and saw their revenues soar. In the early days, their ability to get hold of personal computers and convert them from Latin script to the Russian alphabet brought them a profit margin of around 3,000 per cent.

Eventually the laws on importing computer equipment were relaxed, and Khodorkovsky's contacts in the Communist Party allowed him to get a licence to bring them in by the lorry load. Menatep machines were installed in hundreds of state and private enterprises throughout Moscow. Menatep provided guarantees and service contracts for their clients, who were willing to pay good money for the scarce technology.

By late 1989, Khodorkovsky's company had built up substantial profits from its computer business and its cash reserves were high. It was at this point that Mikhail Gorbachev introduced the epoch-making law which allowed the creation of private banks in Russia. After seventy-two years of banning private capital, the economy was taking the first steps in a massive restructuring that would eventually restore something close to market capitalism. Leonid Nevzlin says he and his partners jumped at the opportunity:

Nevzlin: At that time, we were involved in various activities, trying out different things. When the state passed the decree allowing private banks to be set up, we got together all the money we had made from these operations, put it together and paid the authorized capital for our first commercial bank. It was called the Commercial Innovation Bank of Scientific and Technical Progress and later became Menatep Bank.

Sixsmith: OK, but you had no banking experience, did you?

Nevzlin: Well, no one did apart from the employees of the Central State Bank! There were a few of them whom we naturally recruited — there was no other way — but the managerial posts, the top posts we took ourselves. My job was what the English call 'business support', meaning mostly PR — public relations, government relations, personnel, building up relations with outside organizations. Khodorkovsky always offered me the job of first deputy in all the businesses we were developing, so I was so to speak his junior, but senior to the other partners. We always worked like that.

The bank developed really well, principally because we were trusted and we built up relations with ministries, departments and state organizations. They opened accounts with us even though we were competing with the State Bank. Because of that we grew pretty quickly into a major commercial bank, with a large number of branches and a very big turnover — one of the biggest in Russia.

Over the next two years, Menatep Bank grew exponentially and its contacts with the state structures allowed it to speculate with Russia's unique currency system of 'hard' and 'soft' roubles. Soft roubles were non-convertible and could not be used to make purchases abroad, while 'hard' roubles could be used for international trade and were highly prized. Many companies had massive reserves of soft roubles that they were desperate to turn into hard, convertible roubles, but there was no official way of doing this.

Khodorkovsky and his inventive partners found a way round the system that allowed them to change soft money into hard money, and they charged healthy margins for doing so. This in turn allowed them to enter the field of foreign currency trading, which was still frowned on by the state (under the old Soviet Constitution it had been punishable by long prison sentences or even death) but was not specifically banned under the new legislation of the Gorbachev era.

Menatep showed remarkable ingenuity in building its business. Whatever its methods — and some of them were undoubtedly questionable — its lightning fast transformation into one of the biggest commercial banks in Russia was testimony to the vision and enterprise of the young men, most of them still under thirty, who ran it.

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August 1991

Mikhail Gorbachev had started the move towards a market economy, but his measures were limited and tentative. He wanted to strengthen the Communist system by encouraging economic enterprise; the last thing he wanted was to bring Communism crashing down. But that was exactly what happened in a few pivotal months at the end of 1991.

As the BBC's Moscow correspondent, I remember vividly waking up on 19 August 1991 and hearing the news of the attempted hardline coup against Gorbachev. The radio was broadcasting martial music, the sort of Neanderthal Communist propaganda that hadn't been heard in Moscow for a decade, and the chilling message: 'For reasons of health, Mikhail Gorbachev is unable to continue his duties . . . a State Emergency committee has taken over.'

I remember speeding through the streets and seeing tanks rolling down Gorky Street towards the Kremlin. They had been sent by the hardline Communists who hated Gorbachev's liberal reforms; they had put Gorbachev under arrest and now claimed to be running the country.

I spoke to the troops on the back of the tanks: they told me their guns were loaded with live ammunition and they had orders to shoot. But I also saw ordinary Russians stand in the way of the tanks and I saw some of them shot or crushed in the defence of democracy. I was there when Boris Yeltsin climbed on the back of a tank to read his appeal for opposition to the coup; and I was in the Russian White House with Yeltsin as we waited for the attack to begin. I rejoiced when the people of Moscow were brave enough to stand up to the tanks and Yeltsin emerged triumphant. In the face of public opposition, the hardliners lost their nerve and the coup collapsed. It was an inspiring moment. It signalled the end of seventy years of Communist autocracy and it seemed to hold out the promise of democracy in Russia and a free market economy.

I did not know it at the time, but the 28-year-old Mikhail Khodorkovsky had also come to the Moscow White House to join the crowds defending Russian democracy in those August days. He owed his growing business success to Gorbachev's loosening of the statist stranglehold on the economy and he did not want to see the hardline Communists turn back the clock. His growing prominence in the commercial world had recently secured Khodorkovsky a post as economic adviser to Yeltsin's Prime Minister Ivan Silayev and he says it was his duty to be there with him:

I went to defend the White House because I was an aide to Silayev. Perhaps I didn't fully realize the significance of what was happening, but I went with passions running high.

It's true to say that [the events of] 1991 made me a confirmed supporter of democracy and the market economy.

The year 1991 may have marked the culmination of Khodorkovsky's shift away from his Komsomol past, but it was clear that his sympathies had for some time been with the democratic market values that allowed his brand of entrepreneurship to flourish. He already had strong connections with Silayev and with Russian President Boris Yeltsin, who — following Gorbachev's resignation and the dissolution of the Soviet Union in December 1991 — became the country's most powerful man. The Yeltsin connection was to prove vitally important for Khodorkovsky's future . . .

The collapse of Communism opened up substantial new opportunities for business in Russia. In the euphoria of his victory over the hardline Communists, Boris Yeltsin was determined to ensure the country took the path of the free market. He committed himself to the programme of 'economic shock therapy' propounded to him by Western economists led by Harvard University's Jeffrey Sachs and enthusiastically seconded by economic liberals in the Russian government, most notably the Prime Minister Yegor Gaidar and the economic guru Anatoly Chubais. The rationale behind the policy was to transform Russia from a stagnant Communist central command system built on the deadening principles of nationalized industry and the rejection of competitive forces, into a rejuvenated market economy where competition and private enterprise would breathe new vigour into the state.

The Harvard economists convinced Yeltsin that he had no time to lose, that delay would increase the scale of the task, and that the transformation had to be completed before the Communists could regroup and turn back the clock. Only by creating a new business élite and a middle class with a stake in the system could they be sure the Communists would never regain power; leaving the economy full of nationalized industries would make it easy for Communism to return.

The reformers accepted that the speed of the change — essentially the biggest and fastest privatization exercise ever undertaken anywhere in the world — would cause short-term pain, but believed the long-term gain would make it worthwhile.

While Yeltsin adopted the principle of privatization, he struggled with the means to implement it. He was determined that state assets should not be sold to foreign buyers; but home-grown investors with enough capital to buy the colossal industries he was selling off were few and far between.

His first attempt at privatization in late 1992, masterminded by Gaidar and Chubais, was a voucher scheme that aimed to 'give away' Russia's state industries to the people. Every citizen was given a voucher worth 10,000 roubles (approximately \$60), each one representing a very small stake in the country's economy. It was a brave attempt to create a shareholding middle class overnight, but it failed. It failed because the people who *did* have money, and who had the

inside knowledge that the vouchers were the key to untold future wealth — people like Boris Berezovsky, Roman Abramovich and Mikhail Khodorkovsky — went out and bought up the vouchers by the hundreds of thousands, often failing to pay a fair price to the ordinary Russians who owned them. Even the mathematics of the operation seemed perversely illogical. The population of Russia was 150 million, so 150 million vouchers were issued . . . meaning that the greater part of the Russian economy was apparently being valued at a mere \$9 billion. No wonder the plutocrats and oligarchs were determined to buy it up!

Leonid Nevzlin says Khodorkovsky had dreamt since his childhood of becoming a captain of industry — he had read and been enchanted by accounts of the big American capitalists like Rockefeller and Carnegie — and now he seized the chance to fulfil his dream. His foray into banking had been simply a means to this end and had never really interested him as a project in its own right.

Menatep bought up masses of vouchers, which gave them shareholdings in dozens of different industries, including textile mills, chemicals, metallurgy, glass, food processing, wood pulp and paper, fertilizers and oil. It was a risky process because no one was sure what condition these industries were in — the Soviet way was never to open the books and to guard profit and loss figures as if they were national secrets — but Khodorkovsky and his partners took the risk. Like the other oligarchs, they were accused of snapping up state assets for a fraction of their real worth, but they argue the prices were the right ones, given the element of uncertainty involved in the purchases and the fact that many of the firms they bought produced no returns or went under very quickly. Speaking many years later, Khodorkovsky was unrepentant:

I played according to the rules of that time. Of course, those rules could have been better. Then we could have avoided some of the current problems . . . But nowadays, it's like going to someone who bought an apartment back in 1994 when prices were very low and saying to him: look at what that apartment is worth today — there must be something crooked here. And if they apply today's laws to the time that all this was happening, then of course it's perfectly possible for them to accuse anyone. That's the danger: they're trying to use that time when the legal system was completely chaotic to formulate some accusations today.

As for the hatred felt by many Russians towards the oligarchs and the popular belief that they ripped off 'the people's property', he professes indifference. It is clear, however, that he feels a little uncomfortable with his own negative image from those years and later tried hard to correct it through his charity work and corporate philanthropy:

Well, in answer to that question [Did the oligarchs deserve the criticism they attracted for the way they got rich?], I am not sure that many people in America like Bill Gates.

There is one tactical and one strategic issue here. The strategic issue is this. If we in Russia continue hounding rich people and kicking them out of the country, if we always follow the wishes of our population on this, then we will not move far from our primordial cave. And we will never turn into a rich society because rich people are necessary for the success of everyone in society. As for the tactical point, the Communists will always express this anti-rich position more clearly than any others. A campaign against oligarchs will obviously lead to the Communists getting more votes.

Sale of the century?

His successful manipulation of Yeltsin's voucher scheme brought Khodorkovsky (and the other oligarchs) a seat at the high table of Russia's power élite. The oligarchs were vastly wealthy individuals, the new captains of industry who got rich through their own drive and ingenuity and through their unscrupulous, sometimes criminal, exploitation of the economic chaos in post-Soviet Russia. As well as wealth, the oligarchs aspired to political power and many of them attained it. A plutocratic new order seemed to be emerging in which the business and political élites became closely intertwined and increasingly interdependent. The oligarchs were widely reviled by ordinary Russians who saw and resented their vulgar shows of flaunted wealth and accused them of stealing the property of the state. But in the new Russia of the 1990s, they were important, influential figures. They created their own 'oligarch's union' with a club on Moscow's Sparrow Hills and close ties to the key figures in Yeltsin's presidential entourage. Most importantly, the 'voucher' years of 1992 and 1993 saw the origins of the strategic pact between big business and big power politics. It would mutate into a Faustian bargain, with each side believing it had a hold over the other. And it would eventually lead to acrimony and conflict when the partners felt the terms of the pact were being broken.

In the years following the voucher scheme Khodorkovsky took a hands-on role in running the companies he had acquired. But like the rest of the oligarchs, his chief aim in those early days seemed always to be the making of a quick profit. There was little or no investment in the companies' future; it was the era of asset stripping, enforced redundancies and rapid windfall gains for the men at the top.

Khodorkovsky, though, had bigger plans for more lucrative schemes in the longer term. He was dissatisfied with the disparate portfolio of businesses he had picked up through the voucher privatizations and seems to have decided early on that the way to maximize his profits was to specialize in a single lucrative branch of industry, namely oil.

His relations with the Yeltsin administration were getting stronger along with Menatep's balance sheets, and in 1993 he had taken the precaution of asking the President to give him a governmental post. By design or good fortune — probably the former — that post turned out to be Deputy Oil Minister in the Department of Energy. It would stand him in good stead when the state began to privatize its oil and gas resources a couple of years later — those who had connections in the right places were always going to be in pole position.

While Yeltsin had managed to privatize many branches of industry, the remaining Communist faction in the Russian Parliament had fought hard to

block the sale of what they considered to be strategic assets that the state should retain at all costs — land, iron and steel, and oil and gas. By 1995, all of Russia's state-owned oil companies were operating at a loss. The inefficient practices of the Communist era had not been eradicated and the industry was in sharp decline. Khodorkovsky could see the wasted potential and the scope for big profits, but Russian law — jealously enforced by the Communists — specified that strategic industries should not be sold off to private individuals. It eventually took a fortunate concatenation of circumstances and a stroke of cynical genius by the Kremlin to get round the law and allow the oligarchs to get their hands on the most lucrative jewels of the Russian economy . . .

The combination of the irresponsible 'shock therapy' and Boris Yeltsin's disastrous management of the economy came to a head in 1995 when a massively inflated budget deficit came perilously close to bankrupting the country. Wages and pensions were going unpaid across Russia; industry was grinding to a halt.

To make things worse, presidential elections were due the following year and the Communists, under their new leader Gennady Zyuganov, were threatening to make a sensational return to power — this time via the ballot box.

Yeltsin and his allies panicked. They desperately needed a massive injection of cash to keep the economy going if their election campaign was to have any chance of success; and they needed key figures in the economy — the oligarchs who by now controlled much of the country's media: newspapers, television, radio and advertising — to come to their support in beating off the Communist challenge.

For the oligarchs, too, the prospect of a Communist victory, with the promised horrors of re-nationalization, corruption trials and political revenge, was not a happy one. The interests of the Yeltsinites and the oligarchs were tightly enmeshed, and it was Mikhail Khodorkovsky among others who came up with the solution both sides were looking for.

On 30 March 1995, Khodorkovsky and another tycoon, Vladimir Potanin, went to see Boris Yeltsin in the Kremlin. They proposed that the oligarchs lend the President the equivalent of \$1.8 billion. But Potanin and Khodorkovsky made clear they were not doing it out of the goodness of their hearts. As surety for their money they would require the government to put up the deeds to some of Russia's strategic state enterprises, including the iron, steel, gas and oil industries. The scheme was later to become known as 'loans for shares': it got round the ban on selling strategic assets by nominally using them as surety for loans. Since there was very little chance of the bankrupt government ever repaying the loans, however, the deal provoked much criticism that the oligarchs had blackmailed Yeltsin into handing over the prized possessions of Russian industry. The unspoken agreement was that if the oligarchs successfully used their money and influence to get Yeltsin re-elected, then the law would be changed — the assets they held as surety for their loans would be put up for auction and they would get first refusal on buying them.

The whole deal was quite remarkable: Khodorkovsky and his group of young comrades — still in their early to mid-thirties — had started out less than a decade earlier doing petty business deals in defiance of a repressive state regime; now the Russian state was coming to them for help!

Entrepreneurs in the West, like Bill Gates and Steve Jobs, are lionized for their success. But in Russia, Khodorkovsky and his partners were regarded with suspicion and resentment. They were seen by the vast majority of Russians as ‘the Jews who stole the people’s property’.

In their defence, the oligarchs say they were actually taking a substantial risk with their money, because if the Communists had won the election they would have confiscated their funds and kept the industries they were offered as security as well. And they point out that if Yeltsin won the election, under the terms of the deal he always had the option of repaying the loans he had received (although Khodorkovsky knew this was pretty well impossible, given the parlous state of the government’s finances).

In the event, Yeltsin managed with the oligarchs’ help to turn round some disastrous poll figures and beat the Communist Zyuganov in the second round of elections in July 1996. The oligarchs now came to claim their prize.

In September 1996, the state organized a series of very unusual auctions for the nationalized firms which had been offered to the oligarchs as collateral for their loans. In each case, the auctioneer and effectively the only bidder for the assets in question transpired to be the oligarch who had made the loan to Yeltsin before the election. Potanin picked up the country’s leading nickel and aluminium company for a song; Berezovsky, with his partner and protégé Roman Abramovich, got the Sibneft oil company (*neft* in Russian means oil, so the name means Siberian Oil); and Khodorkovsky got a majority stake in the massive Yukos oil conglomerate, then Russia’s second largest producer, for the knockdown price of \$309 million.

Boris Berezovsky would later boast that Russia’s top seven businessmen controlled 50 per cent of Russia’s economy. The oligarchs were brazen and seemingly shameless. There was much criticism of them for allegedly ‘robbing the state of its assets’, and this perception was to be publicly encouraged by Vladimir Putin ten years later when he was looking for charges to level at Khodorkovsky and reasons to bankrupt Yukos. But it is worth remembering that the ‘loans for shares’ scheme in 1996 was carried out with the full approval of the legitimate government of Russia and that many other tycoons benefited from it in exactly the same way Khodorkovsky did.

When it came to the crunch, though, it was Khodorkovsky that Putin decided to crush . . .

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Consolidating the gains

Because Khodorkovsky's acquisition of Yukos was the defining moment in his business life, because it made him into a figure of national and international influence, and because it is the event that ultimately led to the campaign that brought him low, it is worth pausing for a moment to consider how ethical or unethical the deal actually was — was it a legitimate purchase, or was it a devil's bargain that cheated the Russian state out of its vital oil resources?

The bald facts are that Khodorkovsky, through various intermediary companies, paid \$309 million for a controlling 78 per cent of Yukos. Its new owners were companies in which Khodorkovsky and the other six members of the Magnificent Seven possessed 100 per cent of the shares. And because these companies were registered offshore, Khodorkovsky had effectively taken the ownership of a major Russian oil producer outside the country's national boundaries for the first time in history.

Yukos continued to trade on the Moscow stock exchange, and within months it had a market capitalization of \$6 billion — equivalent to fifteen times greater than the price Khodorkovsky had bought it for.

The issue of 'loans for shares' continues to this day to provoke furious debate in Russia and Khodorkovsky was well aware that many people questioned the legitimacy of the way he acquired his wealth. His most comprehensive response to the accusations against him came in the last public statement he was to make before his arrest in October 2003:

The favourite topic of discussion in our country is whether companies were sold too cheaply during privatization and if it was possible to share all those assets honestly. The answer is both yes and no . . . Remember late 1995: the presidential elections were nearing, inflation was rampant, mostly due to the failure of major companies to pay taxes — the oil sector was barely paying anything to the budget at all. At the same time, enterprises were not paying wages to their workers. Tensions were growing, and this was the situation ahead of the presidential elections! That is how things were when top government officials invited us for talks — thirty of Russia's leading entrepreneurs — and said: 'We have to immediately ensure the receipt of taxes from the largest industrial enterprises, so we are ready to sell those enterprises to you. But, to begin with, you must yourself persuade the directors of those enterprises to hand over power to you. Secondly, you will have to begin paying taxes immediately. And, thirdly, you will have to pay something for the enterprise.'

Let's have a look at how things were. Yukos's debts to the budget for 1996 [i.e. while it was still a state enterprise] exceeded \$2 billion, while the total debt, including

wage arrears and debts to contractors, stood at \$3 billion. Oil output had fallen from 45 million to 35 million tons per year. Can you imagine what the implications of such a drop in production were for the industry!

Khodorkovsky's argument is that he and his fellow oligarchs did not get any bargains from the 'loans for shares' auctions; that they were buying companies that were in dire straits; and that they were actually risking their own capital to help rescue the country's most important industries.

As for the charge that his purchase of Yukos was illegal, he vehemently denies any wrongdoing. He told the *Kommersant* newspaper that, in the mid-1990s, legislation governing private business in Russia simply did not exist; there were effectively *no* laws to be broken:

Those were the conditions under which the original accumulation of capital took place. People did what they wanted. We did shape some moral requirements to ourselves but those were our own moral requirements, so we should not even mention them today. They corresponded to the society we lived in. Then gradually the legislative field began taking shape: we continued functioning in its boundaries, but it was still quite wide. That is a situation that remains to this day.

In an epistle written from his gaol cell in November 2005, he was more willing to acknowledge that state property was indeed sold off at knockdown prices, but he argues that it was all done with the active participation of the state and with the deliberate aim of privatizing the economy as quickly as possible to prevent the Communists turning back the clock:

It cannot be said that the privatization of the 1990s was economically ineffective. Yes, many of the largest enterprises in Russia were sold for symbolic prices. But it should not be forgotten that the main goal of that privatization was not the rapid filling of the exchequer from the sale of those companies, but the establishment of the institution of effective [private] ownership. This task was completely fulfilled.

For an independent assessment of the privatization of Russia's oil — and of Khodorkovsky's claims of innocence before the law — I turned to one of the West's leading oil industry analysts, who spoke to me on condition of anonymity:

Analyst: I think, looking back, that the sell-off was handled badly, and that the outcome was undesirable, especially in relation to loans for shares. The entire process was dictated by political expediency . . . A very small circle of people got its hands on immense wealth in the form of extremely valuable assets, for next to nothing. With hindsight, this was a far from ideal way to privatize Russia's oil industry, but that is the way it actually happened. Obviously, I think it should have been carried out with a much greater degree of transparency.

Sixsmith: So the oligarchs got the oil industry through a process which had the agreement of the state. Would this suggest the process was legal?

Analyst: The details of the process are complex, and would require close examination. But the fundamental problem is that on so many subjects in Russia at that time — and to some extent this is also true of Russia today — there was an absence of clear legislation. It would be possible to make a legitimate case to the effect that elements of the privatization process in Russia were illegal. To a large extent this would depend on the details of the individual case: who did what, when and how? Overall, I think that there is a question mark hanging over all of these privatizations as a result of the vagueness of the prevailing legal environment. There is probably an argument to be made in the case of every single one of these companies that the way it was privatized was illegal.

For example, the auction of Surgutneftegaz, where access to the town was closed off so that nobody could get into the auction, provides one example, and I think that this incident might be used as a way of reversing the Surgutneftegaz privatization if the Russian authorities found it expedient to do so.

Sixsmith: Retroactively, you mean?

Analyst: Yes. I think that privatization was a deeply flawed process — probably, almost certainly in fact, legally questionable. You can, of course, find people who are willing to make the case that the privatization process was totally above board.

As far as the outcome is concerned it is really a question of degrees. One way or another, the privatized Russian oil companies were originally created in such a way that individuals were able to drain huge amounts of money out of them. There are valid criticisms to be made of various things that these companies have done.

Sixsmith: So what did Khodorkovsky do? For the first couple of years, he was interested in making a quick buck, was he not? It was a case of, ‘How much can we get out of this?’

Analyst: Yes. If you go back to the immediate post-privatization period, Yukos and Sibneft were basically seen as bandits, to use the Russian expression.

Khodorkovsky is himself well aware of the criticisms that are levelled at the way he ran Yukos in the first years after he acquired it. The ‘bandit’ image was one that stuck to him: he was widely perceived as having no other purpose than milking the company for as much money as he could get out of it in as short a time as possible. In his November 2005 epistle, he attempts to defend his record by pointing out the parlous state Yukos was in when he inherited it:

I remember what Yukos was like when I joined it in 1996. Oil production was falling by 15 per cent a year, debts to contractors amounted to about \$3 billion, wages were six months in arrears and employees were either grumbling to themselves or complaining out loud: the stealing at every turn was frightful.

When I left Yukos [in 2003], salaries had reached 30,000 roubles per month, there were no delays in pay, and tax payments on all levels reached \$3.5–4 billion per year. Because of privatization real management was established, which simply did not exist in the era of the 'red directors' . . .

When I joined Yukos, the company was operating at a loss, the debt on wages had been accumulating for six months, and the company was only operating in nine regions of Russia, extracting 40 million tons of oil a year. By 2003, Yukos was active in a total of fifty Russian regions, while the annual oil production amounted to 80 million tons with a distinct upward trend. It was the second largest taxpayer in the country, after Gazprom, accounting for almost 5 per cent of the federal budget.

My independent oil analyst does not argue with Khodorkovsky's statistics. But he says the methods Khodorkovsky used to turn the company round were far from savoury:

Analyst: Both in Russia and in the West, Yukos and Sibneft were deemed to be the worst companies in terms of the internal chicanery with cash, in terms of their corporate governance, treatment of minority shareholders, and so on. There are numerous examples. Basically, Yukos quite ruthlessly and effectively squeezed out minority shareholders from its various subsidiaries during the consolidation process. They used to call it greenmailing.

Sixsmith: I take it this was a deliberate policy — there were people they wanted to get out, and they didn't care how they did it?

Analyst: Yes.

Sixsmith: But is that not just efficient if ruthless business practice?

Analyst: You can see it in that light. However — and this is very difficult and sensitive territory — there is no doubt that large amounts of blood were spilt. This is all absolutely off the record, but there are all kinds of tales — and untangling fact from fiction is of course very difficult — but I think most people would accept that this went on, sometimes at quite a local level. My impression of how the murders were planned is that they were not planned from above — somebody like Khodorkovsky was not actually giving a direct order.

The question of murders allegedly ordered by Yukos is one we will return to later. It is undoubtedly the case that as soon as he had control of Yukos, Khodorkovsky began to knock the company into shape. He fired hundreds of middle managers and introduced severe penalties for drunkenness on the job. His management regime was particularly hard on workers who were perceived to be cheating the company or stealing its property. He set up a security division that employed hundreds of people and was headed by Leonid Nevzlin,

Khodorkovsky's longtime friend and partner. It became standard practice for the security men to keep tabs on employees and even to investigate their lifestyle and spending habits. According to one former manager at the company, the internal security service would interrogate workers who bought a new apartment or a new car. "They would ask, "Where did you get the money from? What secrets have you sold to our competitors?" And if the man said his wife had taken a loan from the bank, they would go and check the next morning to see if it was true.' The methods were harsh, but they reduced the levels of corruption that had plagued the firm in the time it was owned by the state.

Outdated management practices and ingrained inefficiencies in the oil extraction and transportation process had left Yukos in a difficult financial position, with crippling debts. But Khodorkovsky and his partners knew the company's trump card was the massive oil reserves it had control of, and they believed that if they could keep it afloat it would provide substantial profits.

Over the next two years, Khodorkovsky cut production costs by two-thirds and in early 1998 the purchase of another oil company, Tomskneft, gave him even more oil reserves and greater production capacity. But the emphasis was still very much on extracting cash from the business, and Menatep did little to build Yukos up for the future: there was not much investment; the oil fields were barely maintained and new ones were not developed; badly needed new technology was not supplied, and it seemed the whole operation was regarded as little more than a source of quick, easy money.

Then, in the second half of 1998, things changed dramatically. Following the sudden plunge in world oil prices, the rouble was sharply devalued and the energy-dependent Russian economy went into headlong decline. The stockmarket lost billions of dollars. Many big firms that had previously seemed impregnable went to the wall in a matter of weeks, and it appeared Yukos might be on the point of joining them. Khodorkovsky's holding company, Group Menatep, and his Menatep Bank Corporation came very close to bankruptcy; but in the face of crisis he exhibited a steely, sometimes vicious ruthlessness in the fight to keep Yukos afloat. Looking back on the crash of 1998, Khodorkovsky took pride in the toughness he exhibited:

[The year] 1998 brought devaluation for the entire country. For the oil sector it meant a drop in the oil price on world markets to \$8.50 per barrel, while the cost of production stood at \$12 per barrel at the time. That means you produce oil and you pay extra for doing so! Had it not been for the crash I would never have resorted to the measures that I resorted to, which, honestly speaking, was what helped haul the company out of crisis. I am talking about cutting staff by 30 per cent, tens of thousands of people in just one year. It is not something I am proud of but there was no alternative. The staff, that is 100,000 employees, volunteered to have their salaries slashed by 30 per cent. If you think it was fun, I can assure you it was not.

Khodorkovsky went personally to Yukos's main oil production facility in the

town of Nefteyugansk and invited all the company's workers to a meeting in the town hall. He spoke with them for an hour and a half and explained that they would have to take a pay cut. The reaction was fiercely hostile, but by the end of the meeting he had persuaded the workers that it was better to take a temporary drop in wages in order to save the company and keep alive the possibility of better days ahead. Khodorkovsky seemed to delight in the role of strongman: 'If a man is not an oligarch', he told one journalist, 'there is something wrong with him. Everyone had the same starting conditions; everyone could have done it. If a man didn't do it, it means there's something wrong with him.'

The mild-mannered, bespectacled Jewish intellectual had turned into a chest-beating superman. Not only did Khodorkovsky brazenly default on a \$236 million loan to a consortium of Western banks, he engaged in a cutthroat battle for supremacy with some of the investors who held minority stakes in Yukos.

The American oil firm Dartoil, led by the veteran businessman Kenneth Dart, felt particularly aggrieved by the way Khodorkovsky treated them. Ken Dart was an American who in the early 1990s became a tax exile in the Cayman Islands. The heir to a vast family fortune created by his father's invention of the Styrofoam coffee cup, Dart Junior was an aggressive investor in many different branches of commerce throughout the world. He developed a reputation as a skilled 'greenmailer' — buying a minority stake in a company and subsequently accumulating enough shares to allow him, perfectly legally, to block its management's plans for restructuring or modernizing the firm. The greenmailer would then offer to lift the blocking veto in return for the management's agreement to buy out his shares . . . at two or three times their market value.

Dart was reputed to have used such tactics against several Western companies and in 1995 he began to buy packets of shares in Russian firms, including Tomskneft. By 1998, he owned 13 per cent of Tomskneft and used his vote to block Khodorkovsky's plans to consolidate the company into Yukos. Instead of offering to buy out Dart's stake, however, Khodorkovsky retaliated with a complex series of financial manoeuvres that diluted the value of Dart's shares and made them almost worthless. Dart was furious and mounted an extensive PR campaign that portrayed Khodorkovsky as a thief. Khodorkovsky responded with an equally vigorous PR effort to discredit Dart.

Neither man was blameless, and in the end they reached an agreement for Khodorkovsky to acquire Dart's Tomskneft shares for a price that was never made public. The affair had tarnished both men's reputation. Khodorkovsky was widely portrayed as a ruthless shark. It was an image he was to find hard to shake off.

PART THREE

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New man in the Kremlin

By 1999, Khodorkovsky had all but resolved his problems with the Yukos minority shareholders and was beginning to nurse the company back to health after the disaster of the 1998 stockmarket crash. It was to be an important year for Yukos and for Khodorkovsky personally. It would see a fundamental rethinking of the way he approached his commercial dealings and conducted himself as a businessman. Instead of looking for the quick buck to be made out of his company, he began increasingly to think about ways to develop its potential and invest in its long-term future.

But 1999 would also see the most important political changes in Russia for nearly a decade. In early August, President Yeltsin appointed a new Prime Minister, a little-known bureaucrat who had been installed the previous year as head of the FSB, the successor to the KGB. Few had heard of the new man and few expected him to last long as Prime Minister. His name was Vladimir Putin and he was to make an astounding job of proving the doubters wrong.

On New Year's Eve 1999, Boris Yeltsin welcomed the new millennium with a dramatic, unexpected speech on television. The old, sick, drunken President announced he was stepping down early and had decided to hand over the reins of power to his Prime Minister. It was a decision that changed the face of Russia.

In sharp contrast to the *laissez-faire*, free-market democrat Boris Yeltsin, Putin had strong ideas about the role of the state. As acting President from 1 January 2000, he brought many of his former KGB and FSB colleagues into the Kremlin. They were to form a powerful clique known as the 'Siloviki' or strongmen.

The advent of the Siloviki was to have far-reaching consequences for Mikhail Khodorkovsky and for all the oligarchs. Putin, with his close aides Viktor Ivanov and Igor Sechin, and the hardline Defence Minister Sergei Ivanov, believed Yeltsin's privatization programme had been a disaster for Russia. They felt it was madness to sell off strategic national assets like the country's oil and gas reserves. When Putin came to power, the state controlled only 4 per cent of Russia's oil and he complained privately that no other self-respecting state would have got itself into such a position. Publicly, he announced that he was going to 'destroy the oligarchs as a class', echoing Stalin's bloody promise to 'destroy the *kulaks* [rich peasants] as a class'.

In fact, Putin's threat was more electoral rhetoric than practicable policy: in 2000 he knew he needed the oligarchs almost as much as they needed him, and any moves to reduce their influence would have to be made slowly and carefully. Many of them had helped to fund his election campaign and Boris Berezovsky

had operated as the main sponsor of his political party, Yedinstvo. After Putin was formally elected President in March 2000, Berezovsky expected to become his grey cardinal, the power behind the throne, just as he had been for Boris Yeltsin. The other oligarchs expected gratitude and respect for their support during the elections. Their expectations were to be spectacularly dashed.

In February 2000, Putin had already warned the tycoons not to expect special treatment from him, saying his relationship with big business would be just the same as with anyone else, 'the same as with the owner of a small bakery or a shoe repair shop'. In July 2000, he called the leading oligarchs into the Kremlin to explain the rules of the game under which they would be expected to operate. He said he would not interfere with their business activities and would not reverse the privatization process that had made them all rich, as long as they agreed to stay out of politics. And that, he explained, meant they should not be funding political parties; they should not seek personal political power; and, above all, they should not challenge or criticize the President.

The reaction of some of the oligarchs was scathing. Berezovsky felt personally insulted by the upstart Putin — whom he claimed to have brought to power — and he pledged himself to enduring opposition. Vladimir Gusinsky tried to retain the independence of his media empire but was intimidated into toeing the line. Both men went into voluntary exile after acknowledging the Kremlin's superior strength. Gusinsky had been briefly arrested and locked up at Putin's behest, but was released after he signed over the ownership of his television channel to the state. If Putin thought he could achieve the same result with Khodorkovsky, he was to be sadly disappointed . . .

The Khodorkovsky of the late 1990s and early 2000s was a very different person from the young, aggressive entrepreneur who had stopped at nothing to grow his empire and secure his fortune a decade earlier. His mid-thirties seem to have brought something of an early midlife conversion. The outward signs were a personal makeover, including the removal of his trademark moustache, new rimless glasses, and a penchant for jeans and turtleneck sweaters. The real change, though, was in the way he viewed the world and the way he ran his business.

In the past, he had been accused of bending the law to advance his interests; he had not hesitated to trample on competitors like Ken Dart; and his critics suggested he was involved in intimidation and even murder. But Bruce Misamore, the American oilman who was to become an important figure in the Yukos management, told me Khodorkovsky went through a Pauline conversion on the road to Damascus:

I do not know if Mikhail went off to some place of solitude or something, but I really do believe that. He had taken over the company in 1996 and had gone through some very rough times, fighting off Ken Dart and some 'greenmailers' as he called them. In fact, he told me that he had done some things in the past that he would never do again . . . I think he really *re-thought* what he wanted to do and where he wanted to go.

The 'rough times' Khodorkovsky had been through clearly left their mark on him. Instead of fighting for survival in the merciless world of 'dog eat dog' capitalism, using any means at his disposal, he now seemed determined to do things by the book. He wanted to make Yukos an open, transparent company with no secrets to hide. Instead of milking the firm for cash, he began to invest in its future.

Starting in 1999–2000, Yukos became the first Russian company to adopt Western standards of corporate governance, transparency and shareholder rights, including the preparation of financial accounts that complied with US Generally Accepted Accounting Principles (US GAAP). It engaged American consultants, such as McKinsey and PricewaterhouseCoopers to advise its senior management. It hired experienced professional corporate managers and elected independent members to its board of directors.

In 2001, Yukos American Depository Receipts (ADRs) were accepted for trading in the US market, and US investors — including state pension funds and hundreds of private individuals — bought nearly 15 per cent of its shares. In order to gain a full US listing, Yukos accepted the stringent reporting, disclosure and internal control requirements of the Sarbanes–Oxley Act. These were some of the strictest investor protections in the world, and it is generally accepted that a company engaged in misconduct does not voluntarily expose itself to such scrutiny.

Of course, Khodorkovsky had not suddenly become Mother Teresa. His probity and respect for the law were not entirely prompted by high-minded moral altruism. As he admitted to the newspaper *Kommersant*, adopting proper business principles and Western standards also made Yukos much more attractive to investors:

Democracy, transparency, social responsibility of business, corporate citizenship — these are quite clear things. Of course, to some extent our struggle for business ethics is of a mercenary character. Through improving corporate governance we were able to greatly increase stockmarket players' interest in us . . . So yes, we do profit from that. And it is unprofitable for some our rivals who have failed to follow our example. This is why we are trying to embrace the norms suggested by Western society. But I will repeat that in general today *all* of society benefits from our position . . . Someone should be looking further than the others, demonstrating with their own example that it is not only possible but even better to live honestly.

Bruce Misamore says the clean-up campaign was Khodorkovsky's personal project, but all the partners agreed it was the best way forward for the company:

It could have been Mikhail and his partners, but I think it was led by Mikhail. They elected an independent, Western-oriented board of directors with a mix of Westerners and Russians. They adopted corporate governance principles and a series of goals to

move to become a world-class Western-style company. The board was committed to that, and Mikhail Khodorkovsky was committed to that, so it was very exciting . . . They decided that if they were ever going to turn this into the type of company that was going to make them the maximum amount of money — because this was not a charitable organization! — then they had to do things very differently. The best way for them to accumulate the value — and therefore the future wealth that they desired — was to become a company that would be able to access the broadest range of capital markets and investors, and which would also result in the highest value of the equity and the greatest creation of shareholder value.

The leading Western oil industry analyst I spoke to confirmed that the transformation of Yukos produced the desired effect: investors saw that it was genuinely trying to 'go straight' and responded by making it the darling of the market:

Oil analyst: Of course Yukos changed after 1998. I suppose it was in the aftermath of the 1998 crisis that Yukos started trying to clean up its act. In a short space of time it went from having been perceived as the worst of the oil companies, in terms of treatment of minority shareholders and so on, to gaining the status of a corporate power. I guess the reason behind that is clear: Khodorkovsky wanted to sell the company to anyone who was willing to pay for it, so he needed to clean up his act.

Sixsmith: That is right, and no Western investor would have looked at it in the state it was in before. But I wonder whether he was actually *forced* into making the changes — as a result of the crash. At that point, his assets had almost disappeared: at one stage they had gone down to almost nothing.

Analyst: No doubt the financial crisis concentrated people's minds. At a time like that, if you are in possession of an asset that can generate money — up to then, Khodorkovsky in the main had been a banker, and the banking sector had to a large extent evaporated — then you have a strong incentive to look after it.

But I think to some extent it was also a natural evolution. They had acquired this company and consolidated it, and having decided to hang on to it, it was natural for them to try to make it more efficient . . . The mindset changed. First they treated the company as a cash cow and tried to milk it for all it was worth, but then they became determined to build it up into a successful company on the basis of a long-term vision . . .

In several newspaper interviews at that time, Khodorkovsky likened himself to the American 'robber baron' capitalists of the nineteenth century such as Carnegie and Rockefeller, who made their fortunes in the same dubious way he had made his, but who legitimized themselves later in their career and became known for their probity and philanthropy. He acknowledged that it took several generations for Rockefeller to 'get clean' and said he would like to race through the process much faster:

I certainly would . . . I was in Harvard recently and I heard the Director of their Business School speak. He said that Khodorkovsky was Rockefeller, Rockefeller's son and Rockefeller's grandson all in one person. Rockefeller had it much harder. Back then there were no ready rules. It took a hundred years to create business ethics. It took them three generations. It is easier for us.

Khodorkovsky's efforts turned the once-reviled Yukos into the most transparent and open company in Russia. At a press conference in the summer of 2001, he sat beneath a banner with the firm's new slogan, 'Honesty, Openness, Responsibility', and pledged that he and Yukos had turned over a new leaf: his days as a robber baron were over.

In the following weeks, Khodorkovsky revealed who owned what in the company and appointed Western non-executives including Henry Kissinger and David Owen to give it a seal of respectability. In the past Khodorkovsky had thought nothing of shafting troublesome investors, but now he was treating shareholders with the respect they deserved, and paying proper dividends. The Western money began to flow back in. With its new promise of proper corporate governance, Yukos was seen as a prize by the big investment funds and, rightly or wrongly, they were willing to forget its owner's previous alleged transgressions. Speaking in 2003, Khodorkovsky was well aware of the attraction this held for Western investors:

We now have a lot of American shareholders in Yukos. In Russia we are a sort of poster-child company, a symbol of where the Russian economy and business culture is headed.

Somewhat pointedly, he suggested Yukos's example could usefully be followed by the rest of Russian industry:

In general, I always genuinely believe in what I say and what I do. That was the case when I said to the President that it is possible and necessary to do away with corruption in Russia, when I proposed — and got accepted — anti-corruption legislation and changes in the tax laws, when I introduced rules of corporate ethical conduct. All these things are still in place. The things we achieved have not been reversed. International standards of accountability are taking root.

On 11 February 2002, five months to the day after the attacks on the World Trade Center raised the spectre of a looming threat to US oil supplies, *BusinessWeek* magazine sang Khodorkovsky's praises, giving him full credit for the makeover of Yukos and responding positively both to his adoption of Western business standards and to his offer of Russian oil to shore up future US needs:

Industrywide, oil production climbed 7.7% last year in Russia. At Yukos, it surged 17%.

'Russia can be the reserve tank for the U.S. and Europe,' Khodorkovsky says. Just over two years ago, Khodorkovsky, 38, was making headlines for locking minority shareholders out of meetings and diluting their stakes. But now, after consolidating his control over Yukos, the bad boy of Russian business has turned a leaf. Yukos is the first major Russian oil company to issue quarterly financial statements that meet U.S. standards. Investors are rewarding him: Yukos' share price is up 250% since Dec. 31, 2000. If Khodorkovsky can keep this up, the Russian energy industry with Yukos as its standard bearer may finally get some respect.

Buying up the Duma?

The new millennium had begun well for Khodorkovsky. The crisis in the Russian economy that dogged Yeltsin's final years in power was resolved and the market was growing again. The thing that did more than anything to rescue the country was the substantial rise in the price of oil. As one of Russia's biggest oilmen, Mikhail Khodorkovsky's fortunes rose with it.

His apparent Pauline conversion had persuaded him to invest in Yukos's future. Now he seemed to be building a durable power base he could use for other, as yet undefined, purposes.

In 2000, Khodorkovsky had constructed a fortified, gated community in the rural suburb of Zhukovka outside Moscow and moved the company's owners into it. He and his family had a large detached villa within the walls, as did Platon Lebedev, Leonid Nevzlin, Mikhail Brudno and Vladimir Dubov. There was a communal gym and a swimming pool; there were parties and barbeques — the Yukos men were business partners and they were also friends. Working together all day and socializing together in the evenings made them a close-knit team; the feeling of being united against a hostile world, which they had all shared as youngsters, was still very much with them.

The Yukos compound was located down a dirt road in the middle of thick forest. On arrival, ten-foot-high steel gates would swing slowly open. Inside were security men and an office complex, and meeting rooms with doors that were exact copies of those in the Kremlin. Zhukovka, off the main Rublevskoe Shosse road leading into Moscow, is a sought-after area, and one of their neighbours was the President, Vladimir Putin. Khodorkovsky used to complain that Putin's motorcade would halt the traffic and make him late for work. It was not to be the last time the two men would rub up against each other.

By all objective standards, Khodorkovsky had made a success of modernizing Yukos. He had replaced the outdated equipment the company had been depending on and brought in new technology from the West. He had hired Western managers and was actively seeking Western investment. He had improved efficiency, boosted production and grown profit margins.

By 2003, Yukos had become Russia's biggest oil producer, but Khodorkovsky was still not satisfied. Being number one in Russia was not enough: he wanted to be number one in the world.

A glimpse of his long-term plans had emerged as early as 1998 when he had tried to mount a takeover of Sibneft, Russia's number two oil company, now owned outright by Roman Abramovich. The talks had been called off when the stockmarket crashed at the beginning of August 1998, but Khodorkovsky had never lost interest in the deal. Now, in early 2003, there were growing

indications that he was angling to revive the Sibneft takeover and that his next step would be to invite a foreign company — either British Petroleum or more probably an American firm — to buy a stake in the new conglomerate.

Khodorkovsky had been discovering Western business ethics and — it seemed — the attraction of Western-style big power politics. He was spending more and more time in London, Washington and New York; he was talking of becoming the number one oilman in the world; and he was starting to take an active part in social matters in Russia. It was hardly a surprise that the Russian media were beginning to speak of him as a potential future rival to the current President . . .

If the Kremlin was concerned about Khodorkovsky's business and social initiatives, it was finding his political activities doubly alarming. Big business in post-Soviet Russia has always had close ties to individual politicians and political parties: lobbying for business-friendly legislation and for pork barrel favours is an established part of public life. Yukos had been doing its fair share of it, and Khodorkovsky had benefited from his closeness to politicians: his connections with the Communist Party's Komsomol got him started in business in the 1980s and his backing for Boris Yeltsin in 1996 had enabled him to acquire Yukos at auction.

But in early 2003, Khodorkovsky went a significant step further. He methodically arranged secret meetings with the leadership of nearly every party in the Russian Parliament, the Duma. He had funded some of the parties in the past, but now he was offering them amounts running into tens of millions or even hundreds of millions of dollars. His professed intention was to help with the parties' campaigns for the impending parliamentary elections in December 2003 and thus oil the wheels of democracy. He would later claim he had received Kremlin approval to do so, although this was disputed by Putin who was horrified to hear about Yukos's donation to the Communists.

In fact, it seemed to many people that Khodorkovsky was systematically buying up the Russian Parliament to make it his own private fiefdom. The price of his investment was to be the installation of Yukos placemen high enough on the parties' electoral lists to guarantee their election as deputies, and the right of Yukos to influence policy once the parliament was in place.

It is undoubtedly true that Khodorkovsky had a track record of funding political parties. In the 1999 parliamentary elections Yukos had openly bankrolled the campaigns of two right-wing, pro-Western parties, Yabloko and The Union of Right Forces (SPS). They had also funded the Yedinstvo Party of the future President, Vladimir Putin, and several others including the Russian Communist Party, although this was kept strictly secret. As a result of Khodorkovsky's largesse, Vladimir Dubov, one of Yukos's leading executives and a principal shareholder in Group Menatep, had been put on the electoral list of the Fatherland All Russia Party. He was voted into parliament in December 1999, where he served openly as a supporter of the company.

It was rumoured that for the next four years (the parliamentary term) over

100 other deputies were also beholden to Yukos and that they were returning the favour by doing Khodorkovsky's bidding. Many of them occupied important positions on the Duma's select committees covering economic issues, taxation and industrial strategy. As a consequence, laws were passed that openly favoured Yukos's interests. Legislation was adopted to protect Russian oil firms from foreign competition, and an attempt to increase taxes on large corporations (such as Yukos) producing oil from easily exploited areas was decisively quashed. The Minister for the Economy, Germann Gref, estimated this would cost the state \$2 billion a year in lost taxes and could bankrupt those oil firms working in difficult geological areas, but the deputies followed their instructions and voted the way they had been told to vote.

The extraordinary extent of big business's influence over parliamentary decision-making in Russia may be hard for Western readers to comprehend: it certainly makes Britain's 'cash for questions' scandal, where a businessman paid a Member of Parliament (MP) to raise certain issues in the House of Commons, look like a storm in a tea cup. But it is important to remember that the parliamentary system was a new toy that emerged only after the collapse of the USSR in 1991. Before then, the Supreme Soviet (the servile parliament of Soviet days) had had no influence whatsoever over laws that were simply passed down by the Communist Party to be rubber-stamped: there would have been no point in lobby groups trying to influence its deliberations because they counted for nothing.

When the new Duma started to have some clout under Boris Yeltsin, it was quickly 'privatized' by those oligarchs who had the money to buy its loyalty: if deputies had previously been a rubber stamp for the Communist Party, now they were rubber-stamping the decisions of their new paymasters. The Speaker of the Duma, Gennady Seleznyov, reported that one MP was interrupted by a mobile phone call in the middle of his speech: it was Khodorkovsky ringing him to tell him what to say! Seleznyov told Putin about the incident and the President flew into a rage. Seleznyov later said that when it came to legislation on the oil industry, it seemed to him that there were '250 Vladimir Dubovs' in the chamber (and fortunately for Yukos, Dubov was also the chairman of the Duma's Taxation Committee, so he could look after the company's interests there too . . .).

Another of Yukos's sponsored MPs was Alexei Kondaurov, a former KGB general who had left the security service to become the company's chief risk analyst. Our paths had crossed during the failed coup against Mikhail Gorbachev way back in August 1991 and I found him a sincere man with the country's best interests at heart. When I spoke to him seventeen years later, he had made a remarkable transformation from KGB operative to free-market businessman and MP. Kondaurov told me Khodorkovsky's infiltration of the Duma was less for personal advantage than for the good of the body politic:

It was so that there might be a genuine opposition in Russia and that the state should

take notice of this opposition. He and I and all those around us believed that we needed a new Russia, a democratic, transparent and open Russia. Khodorkovsky and our company were beginning to have a lot of influence in the Duma. Khodorkovsky himself was becoming increasingly independent minded.

Several years later and already in gaol, Khodorkovsky gave his version of what he had been up to. It was, he claimed, nothing more than the political lobbying that goes on in the US and other Western democracies:

The accusation that the company allegedly bought Duma legislators and so on is a travesty of the truth. The company publicly and openly lobbied in the Duma alongside Lukoil, Tyumen Oil Company (TNK) and Sibneft. These companies together promoted the interests of the industrial sector and no one said a word. Metal and power companies, beer producers and anyone else who wants to promote his business's interests are involved in exactly the same thing. It's absolutely normal practice. If we want to be a normal state, then we have to get used to public lobbying.

I didn't attempt to 'buy' the Duma or use the fact to put pressure on the government. I gave help to the Union of Right Forces — which had not a single Yukos employee on its Party list. I gave help to the Yabloko Party which had three executives from Yukos and Open Russia — very decent people — on its list. As for the Russian Communist Party, three Yukos people were involved: among them ex-KGB general Kondaurov. This is clearly not a case of buying votes and unlike some of the things our colleagues did it was completely above board. In my view, political activity and financial backing have to be out in the open to be civilized.

But by 2003 Vladimir Putin was getting tired of Khodorkovsky's 'independent-mindedness', and increasingly anxious about his apparent bid for parliamentary power. If Khodorkovsky wanted to enrage the President, he was certainly going the right way about doing so. Even now, many years later, Kremlin aides I have spoken to virtually foam at the mouth at the memory.

'He was buying up the Duma!' they splutter indignantly, 'Buying up the Duma!'

Igor Sechin and the 'strongmen'

Putin's closest aide, Igor Sechin, was particularly angry about Khodorkovsky's activities — and Sechin was not a man to take lightly. He had been a personal friend and professional colleague of the President for decades and his opinion counted. The two men had first worked together as young recruits to the KGB in their common home town of St Petersburg (then called Leningrad). When Putin joined the Kremlin administration under Boris Yeltsin, he brought Sechin to Moscow to assist him, and when he became President in 2000, he asked Sechin to become his chief of staff. Between them, they stuffed the Kremlin with former colleagues from the KGB and its successor organization, the FSB.

Sechin was undoubtedly Putin's most important adviser; his word was law in the Kremlin. And it was he who created the powerful clique that became known as the Siloviki, the 'strongmen' who took control of the ideological direction of the country in the years following 2000.

The Siloviki were pragmatic hardliners with no time for the civil liberty, free speech, pro-business policies of the liberals and 'democrats' who had run the country under Boris Yeltsin. The Siloviki cared little for the trappings of democracy: they were men drawn from the security services and the military; they were instinctively wary of Western influences and regarded Yeltsin as a stooge of Washington.

After the change of president in 2000, Sechin and the Siloviki pressured Vladimir Putin to attenuate his initial liberal sympathies. There is little doubt that their influence had an important effect on him and on the more conservative, nationalistic politics he adopted during his presidency. Andrei Illarionov, who was Putin's chief economics adviser for five years before resigning in 2005, says the Siloviki took over all the positions of power in politics, the economy and national institutions:

These people support each other; they're members of the same organization; they're beyond the reach of law and regulations; and they counterpoise themselves against the rest of society. Their ideology is the so-called *nash*-ism [*ours*-ism] — separating 'us' and 'ours' from 'them' and 'the others'. For 'us' common laws are not applicable. Another element of their corporatist state and *nash*-ism is the widespread use of force and violence in various forms toward opponents and 'the others'. This runs from threats of violence to actual acts of violence — in individual form or as violence on a mass scale. This rule applies to all aspects of life — political, economic, financial, informational. This is a cult of force preached via official propaganda on every official channel from dusk to dawn. They have their own law — the essence of which is, 'if someone touches one of ours, he will not outlive the day'. Disputes among themselves they solve

in a manner consistent with the practices of other social organizations, including the better-known one located in the southern part of Italy.

Illarionov is himself a liberal and spent his five years in the Kremlin opposing the rise of the Siloviki. Eventually he resigned in protest at the way politics has evolved under Putin and is now a critic of the hardline, statist values that figures like Igor Sechin and Viktor Ivanov have inculcated in the new Russia:

[There has been] the emergence of a new political, economic, and ideological regime. In fact, it has already been more or less established. My term for it — which may not be the most precise term — is a 'corporatist' state. It's where power is concentrated in the hands of corporations whose members hold all the key positions in the political, economic, ideological, informational, financial, and other spheres of life. The elimination of freedoms leads, among other things, to the elimination of institutions — the weakening, collapse, and ultimately the destruction of public and state institutions.

In terms of the economy, Sechin and the Siloviki were first and foremost 'statists' — they regarded the national interest as the central, perhaps the only, guiding principle for policy-making. The Siloviki were horrified that Yeltsin had auctioned off the state's assets — its big industries, its business capital and its natural resources — to private entrepreneurs. They had an inborn hatred for the men who had profited from Yeltsin's 'sale of the century', the oligarchs who had grown rich at the nation's expense.

Sechin and the Siloviki despised the new tycoons because they believed their activities had weakened Russia. They longed to restore Russia's lost prestige on the international stage, where they feared the ascendancy of a hostile, increasingly imperialist US. To do so they knew they must restore the national economy. In that context, it seemed inadmissible to them that men such as Khodorkovsky should control the country's most important natural resources.

The Siloviki's inclination was to re-nationalize the property of the oligarchs, but there were constraints on what they could do: brutal seizure of privatized assets would undermine business confidence in Russia and lead to a flight of investment capital out of the country. So the early part of the Putin presidency was spent inciting hatred of the oligarchs (emphasizing the fact that the majority of them were Jewish — an important factor in a deeply anti-Semitic country) and promising to act against them (to 'destroy the oligarchs as a class'). The first to fall foul of the new mood in the Kremlin were the ambitious Boris Berezovsky and the hapless Vladimir Gusinsky, both of whom were deprived of their business empires and sent packing into exile.

For Sechin and the Siloviki, however, the key targets were the oligarchs who controlled Russia's oil, and through it the fate of the economy. Without oil, Russia was a basket case; with it, she could return to her former position of strength on the world stage.

Putin put his trusted friend Igor Sechin in charge of sorting out the oil barons.

Sechin was appointed to the board of the state oil company, Rosneft, with the brief of bringing the nation's supplies back under state control. He rose to chair the board and he was ruthless in the way he wielded his power. Some observers have speculated that Sechin used his position to enrich himself and his Kremlin colleagues, including Vladimir Putin. Figures in the billions of dollars were bandied about in the opposition and foreign media. As we will see in the next chapter, those allegations of corruption against Sechin and Putin were to play an important part in the Kremlin's escalating conflict with the oligarchs.

With some of the tycoons — like Abramovich — Sechin's team was able to reach a mutually acceptable *modus vivendi*, but with others it could not. Khodorkovsky was determined to hold on to his empire; he wanted to use Yukos to catapult himself into the ranks of the global business élite . . . and if that wasn't enough, he began dropping very broad hints that he intended to swap the life of a businessman for that of a politician. In early June 2002, Khodorkovsky told the newspaper *Kommersant*:

I think you should always do what you are better than others at doing. I have done a lot in business . . . and my achievements are admired. I won't go into a field where the assessment of my performance might be worse. If I sense that I can be up to the mark, for example in international business I will go for it. The same is true about politics. Why not? Indeed, I am 38 . . . I still have time. Let alone the fact that I have said that I will withdraw from business at 45.

Khodorkovsky hinted very strongly that he had come to regard his business activities as simply a means to accumulate funds for another, very different venture:

Leonid Nevzlin and I have reached the conclusion that we have enough personal money to keep us happy. In that sense, money plays absolutely no role. Money is an instrument to be used for other things. It is an instrument like ammunition for the military — you need constantly to replenish it.

The implication seemed clear: Khodorkovsky was accumulating funds — ammunition — to use in a future battle for political power. Suggesting that he would retire at 45, just in time to stand in the 2008 presidential elections, must have seemed to Vladimir Putin like a red rag to a bull. It is little wonder the Kremlin began to perceive him as a threat. And Khodorkovsky seemed aware that the regime would not take his challenge lying down. When he was asked, 'Do you feel safe in Russia?' he replied, 'Of course not. As an individual — absolutely not.'

He did, though, believe he had two insurance policies against the wrath of

the Kremlin — his powerful connections in the West, and the importance of Yukos to the national economy:

The risk that I, Khodorkovsky could be made to disappear? Yes, it is still possible. But in regards to Yukos, I think not. Society has become too pragmatic and understands that the loss of a major business is a big loss for every person. After all, it is 3 per cent of the GDP, isn't it? That is why even if Putin does not really like our company he still talks to us and asks how he can help our work.

Subsequent events were to make Khodorkovsky's predictions seem like so much whistling in the dark.

Showdown in the Kremlin

By early 2003, Vladimir Putin had every reason to hate and fear Mikhail Khodorkovsky. Egged on by his hardline ex-KGB confidant and now Kremlin chief of staff Igor Sechin, he believed Khodorkovsky had not only stolen the oil reserves that rightly belonged to the state, but had brazenly broken the ‘no politics’ edict Putin had issued three years earlier.

The terms of the landmark Kremlin meeting that followed Putin’s election in 2000 had made it clear that the oligarchs could carry on their business activities as long as they did not challenge or criticize the President. But as we have seen, Khodorkovsky had been financing opposition parties in the Russian State Duma and dropping broad hints that he was going to turn from commerce to a full-time career in politics.

The information that reached the President’s office in the first weeks of 2003 was that Khodorkovsky was buying up votes in parliament in order to force through changes to the Russian Constitution. According to a host of self-interested informants, including Igor Sechin, the oligarch’s aim was to institute a parliamentary democracy in which the Prime Minister would gain enough powers to challenge the authority of the President.

The tale-bearers told Putin that Khodorkovsky had ‘signed up’ 226 MPs and had another 80 ready to vote his way on specific issues for extra payment. Since 300 was the majority needed to make changes in the Constitution, it must have seemed to Putin that Khodorkovsky was close to achieving his aim. Crucially, the informants told Putin that Khodorkovsky then intended to instruct his parliamentary placemen to vote him into the newly strengthened position of Prime Minister . . . As well as stealing Putin’s oil, Khodorkovsky — they reported — was now manoeuvring to steal his presidential crown as well.

The burgeoning animosity between Russia’s two most powerful men came to a head on 19 February 2003 in an explosive confrontation in the Kremlin.

Putin had summoned the country’s leading businessmen to discuss the subject of corruption with senior Kremlin officials. It was one of a series of meetings designed to show the public that the President was taking seriously the sort of problems ordinary Russians, ordinary voters, were concerned about. Recordings of the meetings were shown on national television and reported widely in the national press. But in a delightfully Russian tradition, all who took part in them — and probably all who watched them on television or read about them in the newspapers — knew they were little more than a charade. Like Potemkin’s fake villages, they were a display with no substance behind them: the participants would talk earnestly about the need to tackle the problem under

discussion, and the President would express his determination, but there was never any real intention to do anything.

At the 19 February meeting, a series of speakers showed they had understood the nature of the occasion. Putin himself started by announcing that the state was declaring war on corruption, although he said it would do so not by punitive coercion, but by laws that business would find 'easier to observe than to circumvent'. One after another, the businessmen round the table spouted pious phrases about the need to rid Russia of corrupt practices and turn the country into a beacon of honesty. One after another, they sang the praises of Russia's President who was taking the lead in cleaning up the economy. But not one of them offered a single example of where they had encountered corruption, let alone been involved in it. Not one of them pledged to change anything in the way their companies were run.

Khodorkovsky remained silent as his colleagues spoke. He had prepared a lengthy speech for the occasion. He had produced detailed slides with facts and figures that had been printed and distributed to all the participants, including Vladimir Putin. But it was beginning to dawn on him that he may have made a serious miscalculation.

As his fellow businessmen huffed and puffed, Khodorkovsky began to realize that no one else was going to say anything of any substance — no one really wanted to talk about corruption at all. Alexei Mordashov, chairman of the giant steel conglomerate Severstal, was a model of meaningless phrase-making.

'An ever growing role', he said, 'is being played in this area [fighting corruption] by the growing role of the state and its institutions. In certain cases', he continued emphatically, 'it is possible to observe other developments which lead to the widening of the functions of government, which in turn lead to the weakening of its role.'

As those present nodded sagely in agreement, Khodorkovsky felt a deepening irritation. He knew his fellow oligarchs had little if any interest in fighting corruption — they had been some of its chief beneficiaries — but unlike them Khodorkovsky had had his conversion on the road to Damascus. With his customary obsessive energy, he had spent the past three years turning Yukos into a transparent, Western-style company with Western standards of openness. He had done it out of self-interest, of course — he wanted to list Yukos in the West and engage Western investors — but in the process he seemed to have convinced himself that honesty was the way forward for Russian business as a whole. According to those who knew him at the time, Khodorkovsky had grown messianic on the subject.

When it came to his turn to speak, Khodorkovsky's colleagues say he was overcome by a fit of nerves. Never quite at ease in formal public settings and always anxious before an audience, his disquiet on this occasion was particularly acute. Where the others had delivered platitudes, Khodorkovsky was about to deliver a stinging rebuke to those who perpetuated corruption in Russia, up to and including the President himself.

I have seen a recording of the meeting as Khodorkovsky begins his speech. He was sitting opposite Vladimir Putin; his face was white and his voice had a noticeable shake in it. But he stuck to his guns. The first slide of his presentation bore the title, 'Corruption in Russia — a brake on economic growth'.

Looking at Khodorkovsky's slides, I can certainly understand why he was nervous. His second slide reported opinion poll findings that 27 per cent of Russians believed corruption to be the most dangerous threat to the nation. Slide three indicated that 49 per cent of Russians believed corruption had spread to the majority of state officials, including the police, the tax and customs agencies, the security services, the judiciary, the traffic police *and the highest levels of federal power*. There was a buzz around the table now, and little wonder. Khodorkovsky was producing statistics to show that half of the Russian population believed the President and his closest allies 'at the highest levels of federal power' were corrupt!

Putin listened and stared intently at the slides before him. From time to time you can see him turning over a page, looking to see what lay ahead, making notes in the margin. But like the trained KGB man he was, he betrayed no sign of emotion.

Khodorkovsky asked the meeting to turn to slide four. It reported that 32 per cent of Russians believe the Russian leadership would like to tackle corruption but is powerless to do so; 29 per cent believe the leadership could tackle corruption but chooses not to do so; and 21 per cent believe it neither wishes nor is able to tackle it. Putin lifted his expressionless eyes from the slide to the man presenting it. The meeting had moved dangerously from the bland expression of pious hopes to something much more concrete. Khodorkovsky's statistics were showing that *one-third of Russians believed their President to be powerless in the face of organized corruption, while another one-third believed he was complicit in it*. And there was more to come.

Slide five produced figures from independent auditors suggesting that 30 per cent of the state budget, tens of billions of dollars every year, was being lost to corruption. Slide six showed that 72 per cent of Russians believed it was a waste of time to pursue a complaint through the country's legal system because judges were institutionally corrupt and they could not afford the bribes needed to get justice.

Slide seven gave statistics for the number of university applications for different areas of professional training: it was considerably more difficult to get into institutes training students for low-paid state jobs like tax inspectors and the civil service than it was to get into jobs such as engineers or specialists in oil technology. Khodorkovsky was about to explain the reason for the seeming paradox (everyone understood that state employees could supplement their low official salary by taking lucrative bribes), when Putin's patience came to an end.

The President's steely, inscrutable eyes turned on his accuser; there was a fleeting, tense smile on his lips that spoke of discomfort, not amusement.

'Please!' said the President, 'Let us not apply the universal presumption of guilt to our students!'

But Khodorkovsky had not finished.

Sensing his speech was in danger of being cut off, he abandoned the rest of his slides and turned to a specific, inflammatory accusation of corruption he was determined to put in the public domain. In a voice that was barely audible, he said, 'We need to make corruption something that everyone is ashamed of. Let us take for example the purchase by the state oil company Rosneft of the firm Northern Oil . . .'

Suddenly there was complete silence in the room.

Those present knew that Khodorkovsky was accusing the President of Russia of direct personal involvement in a crooked business deal.

The previous month, Rosneft had bought a strategic oil extraction facility in the north of the country that Khodorkovsky had wanted for Yukos. By all accounts, the price paid for Northern Oil had been suspiciously high. Khodorkovsky, among others, believed the excess payment had gone into the pockets of Putin and his Kremlin cronies, in particular those of Igor Sechin, Rosneft's chairman. Khodorkovsky could not conceal his anger:

'Everyone knows the Northern Oil deal had an ulterior motive . . .' he said, looking straight at Putin. 'I must tell you that corruption is spreading in this country. You could say that it started right here' — the meeting was taking place in the Kremlin — 'and now is the time to end it'.

It seemed clear to everyone that Khodorkovsky was accusing Putin and his closest allies of sitting at the centre of the web of corruption.

The President could no longer contain himself.

'Let me tell you,' he said, looking directly at Khodorkovsky, 'that Rosneft bought Northern Oil because the state has a duty to increase the stocks of oil at its disposal. But some companies like Yukos have got themselves fantastic, excessive reserves of oil. I think the real question is: how did they get them? The ball is in your court!'

Putin paused for a moment before turning the knife.

'And another matter. I believe Yukos has got into a few problems with its tax affairs. You may claim you are dealing with those problems, but the question that needs to be addressed is why they arose in the first place . . .'

There was no mistaking the threat in Putin's voice. His tone was even, with no indication of overt anger, but his words were charged with venom.

Khodorkovsky knew Putin was a prickly personality; he knew he had the characteristic KGB determination never to forgive an insult, but he had decided to insult him nonetheless.

It was a brave, or a very foolish, move and it was to have far-reaching consequences.

Looking for trouble

The February meeting in the Kremlin marked a turning point in the relationship between Russia's two most powerful men. In the light of what was to stem from it, it is hard to comprehend Mikhail Khodorkovsky's motives in throwing down such a naked challenge to Vladimir Putin. Khodorkovsky was not an impulsive man; those who know him speak of his rational, calculating manner. Yet on this occasion he seems to have deliberately goaded the President of Russia on the most sensitive topic, in the most public forum imaginable.

To try to understand Khodorkovsky's motives, I raised the issue with his long-time friend and colleague, Mikhail Brudno, who had teamed up with Khodorkovsky in the earliest days of his business activity. Brudno is an intense, thoughtful man who has had a long time to reflect on the consequences of the confrontation in the Kremlin. His own career, and his personal wealth, suffered dramatically as a result of what happened that day in 2003. He is now in exile and pursued by arrest warrants from Moscow, but his thoughts are principally with his friend languishing in a Siberian gaol.

In a Tel Aviv hotel room over a cup of tea, I asked Mikhail Brudno how things had got so far out of hand. He replied that Khodorkovsky was genuinely aggrieved by the corruption he saw in Russia. And Putin and his colleagues — Brudno calls them 'the greedy ones from St Petersburg' — were horrified that their role in it was being exposed:

Khodorkovsky — in their opinion — was looking for trouble, expressing his opinions when no one had asked him to. And it was not only his opinions they didn't like; it was his struggle for transparency and democracy; his struggle against corruption. He stood in their way — him and his ideals; he was a threat to their power and authority. He posed a threat, and they decided to gobble him up. He thought he could afford to be straightforward and open. He was not afraid of transparency — he had not stolen anything, he had not cheated anybody. So he believed they couldn't do anything to him.

I still found it hard to understand what had prompted such outspoken vehemence from Khodorkovsky. I put it to Mikhail Brudno that he must have been very angry to criticize Putin to his face:

Yes; yes, he was. There had been a deal — Northern Oil, Andrei Vavilov's company, bought the licence for developing the Val Gamburtseva oil field. We did not participate in the auction, but there were quite a few companies bidding for it. The bids were for \$100 million, \$105 million and \$98 million. But Northern Oil got the licence for just \$7 million! . . . so that created quite a fuss.

And then Rosneft bought Northern Oil for \$659 million . . . and its only valuable asset was the licence for developing Val Gamburtseva! They had nothing else that was worth any money!

So think about it: Northern Oil bought the licence for \$7 million, when the real price was around \$100 million, and Rosneft bought them for \$650 million. What is that called? Money-laundering! Yes, money-laundering — pure and simple; money-laundering by the state-owned company Rosneft. And Khodorkovsky said so to Putin [when they met in the Kremlin]. He said the deal was a money-laundering scheme. He said such things were not acceptable. He said they were what worsened the business climate in Russia. He said he thought the times when such deals were acceptable were long behind us.

Mikhail Brudno says he discussed Khodorkovsky's tirade with him after the meeting and that all their Yukos colleagues had completely supported the boss. But I was intrigued to know if Khodorkovsky had really said all those things deliberately and on purpose, or if they had slipped out in the heat of the moment. Brudno was categorical:

Brudno: He said it on purpose.

Sixsmith: So it was his deliberate intention to go to the Kremlin and to say all those things?

Brudno: Yes, it was. And he was right — such things [corruption] must not be tolerated. It is outrageous — if we are a country with a free-market economy, how can such dealings be acceptable? Rosneft was controlled by Igor Sechin, and he took offence when Khodorkovsky 'took a peek' inside his pockets. *Sechin* had laundered that money — as to exactly how they later divided those millions, I can say nothing as I do not know — but the money was later divided between Sechin and Vavilov. And it was then that the situation began to get more and more dangerous . . .

Sixsmith: Because Putin took offence and Sechin took offence?

Brudno: Yes, they did. And, besides, they did not like the fact that we owned such a company as Yukos: 'How can it be? This Khodorkovsky who is always looking for trouble . . .' So the whole campaign against him was set into motion.

Sixsmith: So, that meeting in the Kremlin in February 2003 was the beginning of it?

Brudno: That is my opinion. If he had not said anything at that meeting, none of it might have happened. If he had not stood up so independently . . . too independently . . .

When Khodorkovsky returned from the confrontation with President Putin, his colleagues say he was visibly agitated. He asked the company's executives to

attend a meeting at which he explained what had happened and what it could mean for Yukos and for them. According to one manager who was at the meeting, Khodorkovsky said there were 'hard times ahead' and he believed Yukos now faced the real possibility of retribution from the Kremlin. He told those present that when the retribution came, it could be devastating, and he said he would prefer anyone who was not prepared to face the difficulties that lay ahead to leave the company now. In the following weeks, a few managers did tender their resignations but the majority remained in their posts. In private discussions, Khodorkovsky's closest confidants expressed alarm over the events in the Kremlin and raised the possibility that he would himself be arrested.

The retribution Khodorkovsky had predicted was not long in coming.

Twelve weeks after Khodorkovsky's diatribe in the Kremlin, the signal was given for the assault on Yukos to begin. It took the form of a long report by the influential politologist, Stanislav Belkovsky. Belkovsky was widely regarded as the ideologue of the Siloviki. His report, entitled 'The state and oligarchy', painted a grim picture of the threat posed by the oligarchs to the interests of Russia and warned that the most dangerous of them was . . . Mikhail Khodorkovsky.

Because the Belkovsky report now occupies an almost mythological place in the events leading to the arrest of Khodorkovsky and the destruction of his empire, it is worth examining it in some detail. Belkovsky begins by explaining what he believes to be the motivation behind the proposed merger of Yukos and Sibneft that Khodorkovsky was trying to revive in early 2003. He points out that the new conglomerate would have a capitalization of over \$35 billion, which would make it Russia's biggest company, on a par with the global giants ExxonMobil, Shell, BP Amoco and ChevronTexaco. Belkovsky makes clear that the proposed merger would in fact be a takeover of Sibneft by Yukos and that Khodorkovsky would be the undisputed head of the new enterprise. This, the report says, would give Khodorkovsky the administrative resources and the lobbying power to 'exert *de facto* control over a series of state structures':

It would allow [him] to pursue ambitious, long-term plans. Many observers have now come to the conclusion that Khodorkovsky intends to embark on a political career. The fact that Yukos has been funding the majority of political parties that are likely to win seats in the State Duma is additional evidence of this.

According to Belkovsky, Khodorkovsky and the oligarchs had come to the conclusion that they were under threat from the Kremlin and that their vital business interests were now in danger. They had therefore decided to protect themselves by installing their own members in key government posts. Since they did not have the political muscle or the popular support to win the presidency directly (Russia's deep-seated anti-Semitism meant the partly Jewish Khodorkovsky could never be elected to the Kremlin), they had, said the report, embarked on a campaign to undermine the power of the President and transform Russia from a presidential republic to a parliamentary republic:

The chief ideologist of this transformation is Mikhail Khodorkovsky, supported by other key figures of the oligarchy . . . The transformation of the structure of the Russian state will require changes in the Constitution of the Russian Federation. According to the oligarchs' plan, these changes will be implemented next year by the Russian State Duma, which will by then be under the control of big business. The loyalty of the Duma will be ensured by a system of collaboration between the oligarchs and the main political parties . . . According to their plan, a new government of Russia would then be installed by the new parliament. The first candidate to be named Prime Minister of this government, formed under the new constitutional powers, will be Mikhail Khodorkovsky . . .

The Belkovsky report concludes that the oligarchs' creeping takeover of power is tantamount to a coup against the Russian state and that such a coup is a direct threat to the well-being of the nation:

In circumstances where the country has virtually no real political parties, where the institutions of civil society are weak or in the pocket of the powerful, where the systems of mass communication and the media are under the control of the oligarchs, such a radical transformation of the system of government is not in the interests of Russia and the Russian people. It would mean the oligarchs would be even further freed from any constraints connected with the objective interests of the nation. Such a weakening of the influence of the President would mean power flowing directly into the hands of big business, which would be freed from any real mechanism of control . . . *we are in fact talking about the prospect of an oligarchical coup in Russia.*

It did not take a Kremlinologist to decipher what the Belkovsky report revealed about the attitude of the authorities towards Khodorkovsky: the President and his Silovik allies were deeply concerned about the threat they believed Khodorkovsky was mounting to their power — a threat they saw as a creeping coup against the state — and they were not prepared to let him get away with it. The report's final section suggests the severity of the measures the Kremlin was planning to deal with the problem:

The path of the oligarchs is taking the country into a dead end. The domination of the oligarchy is leading to socio-political degradation and the collapse of the state. This is the path of the oligarchical coup . . . But in curbing the influence of the oligarchs, we must avoid the destruction of our industrial base . . . Our task is to deprive the oligarchs of the illegitimate influence they wield over the development of our country, of the massive profits they have accumulated, of the shady influence they exert over the organs of government . . . These tasks demand a cardinal strengthening of the power of the Russian state . . . It will take time, but we must embark on the process without delay. Escaping from the oligarchs' plans is Russia's only chance — we must be sure we take it.

In retrospect, the Belkovsky report looks very much like a statement of intent

by the Kremlin. Putin had been growing impatient with the oligarchs for the three years he had been President. Under pressure from a public that believed big business had ripped off the assets of the state, he promised on several occasions to act against big business. But it was only when Khodorkovsky began to threaten his own power that Putin took the plunge.

At his annual press conference, a few weeks after the Belkovsky report was published, Putin was asked if he agreed with its conclusions. He replied affirmatively that 'Russia must not let individual businessmen influence the political life of the country in their own commercial interests. Those who cannot accept this rule should remember the fate of those who have followed this path in the past . . . *Some are gone forever and others are far away.*' The last phrase was immediately recognizable as a quotation from Pushkin's epic poem 'Yevgeny Onegin' referring to the execution or exile of the Decembrist plotters who tried to overthrow the government in 1825 . . .

The events that flowed from the Belkovsky report — the attack on Yukos and the eventual gaoling of Khodorkovsky — now look part of a carefully thought out plan, initiated by Putin and implemented by Igor Sechin, the President's aide who would ultimately inherit Yukos's wealth as chairman of Rosneft. But my experience of Russian politics is that big events often happen more by force of circumstance than by rational design. So, nearly six years after his report was published, I went to visit Stanislav Belkovsky to try to get at the truth.

Belkovsky has changed a lot since 2003. His office is in a wealthy part of Moscow, near the Bolshoi Theatre, and set among Western-style hotels and luxury boutiques. His political allegiances have shifted quite radically, too — his strictures nowadays are more likely to be directed at Putin than at Putin's enemies. If his role in the Yukos affair created the image of Belkovsky as a sinister, hardline Kremlin ideologue, in person he is quite the opposite. With a sharp mind and a natural charm, he comes across as thoughtful and civilized. Bearded, bespectacled and slightly chubby, he has a fluent and nuanced knowledge of English that is a legacy of his mother's career as a language teacher. Nowadays Belkovsky seems to bear no ill will towards Khodorkovsky — he says he hopes he will eventually be released from prison — but he told me that he still believes the oligarch was the cause of his own downfall:

This was a business conflict — a conflict between two businessmen, Mikhail Khodorkovsky and Vladimir Putin. The conflict was initiated by Khodorkovsky himself, because he questioned the basic principles of the system that exists in modern Russia — mutual recognition of privatization results. Putin first and foremost is a character of big privatization. That is his mission. He had never asked or questioned the legal aspects of Yukos's privatization before [the meeting in] 2003.

Belkovsky's analysis that both Putin and Khodorkovsky were businessmen interested in the accumulation of wealth is most probably accurate. Despite the

vigour of his rhetoric ('I will destroy the oligarchs as a class'), Putin had made no effort prior to 2003 to re-nationalize the state oil industry 'privatized' by the oligarchs under Boris Yeltsin. Both the tycoons and, it was later to emerge, Putin himself had made big personal fortunes from the 'mutual recognition of privatization results'. Belkovsky told me it was Khodorkovsky's own foolish insistence on referring publicly to Putin's part in this mutual enrichment (the President's alleged involvement in the Rosneft deal over Northern Oil) that triggered the war between them:

It was Khodorkovsky who raised the questions about Rosneft and Putin's connections and links to those companies and assets. Putin responded to that according to the rules of the system — according to those rules, it was Khodorkovsky who violated the rules first . . . It was not political conflict, as was widely perceived in the West: Khodorkovsky sponsored the so-called Russian opposition, first and foremost Communists, in full agreement with the Kremlin. Through the willingness of the Kremlin, which at that moment in 2002 had been very afraid of potential communications between Communists and exiled tycoon Boris Berezovsky, Khodorkovsky replaced Berezovsky as a potential KPRF [Russian Communist Party] sponsor. It was organized and staged by the Kremlin itself.

But Belkovsky's insistence now that the war between Russia's two most powerful men was caused by business interests rather than a political quarrel seems to contradict his conclusions at the time. In 2003, he and many others believed the reason Putin acted to crush Khodorkovsky was because of the latter's political ambitions. Indeed, the main warning in the Belkovsky report is of the oligarchs' political plotting; and at a press conference in July 2003, when the attack on Yukos was well underway, he explicitly attributed the arrest of Platon Lebedev to his boss's political ambitions:

The main cause is the objective fact of growing tension between big business and the national interests of Russia. But the catalyst for the Kremlin's reaction [in attacking Yukos] is the political ambitions of Mikhail Khodorkovsky.

When I pressed Belkovsky about this seeming contradiction, he restated his conviction that it was a challenge to Putin's business interests that caused the outbreak of hostilities in 2003:

Belkovsky: The conflict was a business conflict and it was [caused by] Khodorkovsky's attempt to question the basic ground rules of the [1996] privatizations.

Sixsmith: So it was Khodorkovsky's fault?

Belkovsky: Under the rules of the system, yes: it was Khodorkovsky's fault.

Sixsmith: Do you think he felt so powerful that he could throw down the gauntlet to the President of Russia?

Belkovsky: I think Khodorkovsky momentarily forgot what the source of his wealth and influence really was. He forgot the 1990s.

Stanislav Belkovsky was to play a further part in the war between the Kremlin and the oligarchs. In late 2007, with Vladimir Putin's presidency drawing to a close, he made a series of startling revelations about the extent to which Putin and his aides had enriched themselves during their time in office, and how much of their wealth came directly from the confiscated assets of Khodorkovsky's empire. We will return to Belkovsky's role in a later chapter, but in light of the widespread view that he acted as the Kremlin's agent in unleashing the Yukos wars, it is important to note that he himself denies he was in the employ of any of the warring parties:

I have never had any connections to the Kremlin which allowed me to influence and impact political decisions. I communicated with them, and I am still communicating with pro-Kremlin figures. I just told what was widely said inside the élite . . . I am against the Russian oligarchy that was created twelve years ago and has been keeping the reins of power ever since.

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Pipelines and provocation

Far from backing down after his public row with the President, Mikhail Khodorkovsky seemed determined to ratchet up the stakes. In the weeks following the February clash, he announced that Yukos intended to build a pipeline to transport oil to China. He also let it be known that he was determined to press ahead with the takeover of Sibneft and that he was negotiating with two American oil companies to become major partners in the new conglomerate he was about to create. Khodorkovsky knew both these initiatives were likely to spark further anger in the Kremlin, but he went ahead with them anyway. They were both to contribute to the conflict that would eventually send him to gaol.

The Chinese pipeline project was an important one for Yukos, but it carried a high level of risk. The Kremlin's publicly stated view was that natural energy resources were so important to the Russian economy that the transportation of oil must remain the prerogative of the state. The Kremlin had created a state monopoly, Transneft, to build and manage the country's pipelines. By threatening to strike out on his own, Khodorkovsky was again thumbing his nose at Putin, but he had sound practical reasons for doing so that evidently outweighed the political risk he was running.

The upturn in oil prices after the 1998 crash and the rise in global demand meant that producers worldwide were extracting oil at rates faster than ever before. In Russia, Yukos was by far the most efficient of the oil firms. It had invested heavily in the most modern equipment and had hired Western oil technicians to boost the efficiency of its operations. The company was increasing its daily production twice as fast as its rivals.

But it was one thing to extract the oil; it was another to transport and deliver it to the clients. Because of the sudden upsurge in production, a chronic bottleneck had developed in Russia's pipeline system. All the oil firms, not just Yukos, were having difficulties getting their product distributed, and Transneft was not doing very much to help them. Like many of Russia's monopoly operators, the men who ran the country's pipelines seemed rooted in the old Soviet ways of bureaucratic stagnation. They were not rushing to increase the capacity of the network and remained impervious to the lobbying of the producers.

When the system came close to breaking point, the Kremlin instituted a quota system for the individual oil companies but refused to explain the basis on which pipeline quotas were allocated. Transneft called the shots, and there were lurid tales of companies having to hand over vast bribes in return for quotas to ship their oil. In 1999, Yukos hired a former senior government official, Alexander Temerko, specifically to handle the company's negotiations

with the Kremlin authorities, including the Transneft issue. A decade later, and now in exile in London, Temerko told me how difficult it had been to defend Yukos's interests:

I had known Mikhail [Khodorkovsky] for a long time, ever since the Komsomol days, or even before. In fact, he took over from me in my position with the Komsomol city council.

When I joined Yukos in 1999, he told me it was vitally important to strengthen our relationship with the federal authorities. That was my role . . . because I knew them all — the old and the new guys in power. I was responsible for dealing with the federal authorities, the government, the State Duma, part of the Federation Council.

You know, we were producing the oil . . . but the transportation was handled by the state. The pipelines belonged to the state. So we had to lobby with the government . . . and I worked on legislation in parliament on equal access to the pipelines . . . I may not have known much about extracting oil and processing petroleum products, but I did understand that conditions must be equal for all: equal laws for everybody, and equal requirements and obligations. Getting access to the pipelines and transportation was a difficult issue but we achieved a lot . . .

Temerko's efforts just about kept Yukos's oil flowing, but Khodorkovsky could see this was not a tenable long-term solution: he was already increasing production exponentially, and the impending takeover of Sibneft would mean even more output to distribute. Yukos needed a guaranteed route to ship its oil and Khodorkovsky was looking ever more intently towards the East.

China's rapid industrialization programme and booming economy meant that by 2003 its appetite for oil was close to insatiable. It was consuming over 200 million tonnes per year, of which 40 million were being imported, largely by tanker from the Gulf. For Khodorkovsky, the answer to his distribution problems looked remarkably obvious: he could build a pipeline from Yukos's largest refinery, in the Siberian city of Angarsk, to the Chinese city of Daqing. It would guarantee him an outlet for a large portion of Yukos's production and there would be no need to lobby and plead with Transneft for access to their pipelines.

In 2003, Angarsk was processing oil from Yukos's extraction facilities in the Tomsk region and had a daily throughput of around 20,000 tonnes. Khodorkovsky calculated that the plant's total annual output could be increased to around 20 million tonnes, enough to supply half of China's import needs. It seemed a natural and highly profitable solution.

But the problem for Yukos was not in the economics; it was in the politics.

Khodorkovsky knew the Kremlin would fiercely resist any threat to its monopoly on oil distribution. Oil was power in Russia. The country's wealth and its ability to punch its weight on the international stage, its ability to woo and to blackmail other states all depended on it. If Putin allowed Khodorkovsky to weaken his monopoly over the pipelines, he would be handing over part of

his own power to a man who had already threatened and insulted him . . . and who made little secret of his desire to topple the king.

Khodorkovsky, of course, was a pragmatist and he sought to find some accommodation with the Kremlin over the pipeline to China. Instead of simply announcing that Yukos would build the project, he suggested Transneft might like to build it and run it itself: Yukos would then buy access quotas for its oil in the usual way. When Transneft showed no enthusiasm for this proposal, Khodorkovsky suggested that Yukos would build the pipeline and give it to the state: Transneft would be getting something for nothing.

In fact, the offer was not as generous as it seemed, and Khodorkovsky knew it. Once the pipeline was built and the agreement to supply China's oil had been signed between Moscow and Beijing, the Kremlin would have little choice other than to fulfil the agreement with oil from Yukos. Yukos would gain a guaranteed, stable and profitable outlet for its production that could not be controlled by the Kremlin: Transneft could hardly refuse it access to this pipeline in the way it did elsewhere, because that would mean breaking an international governmental treaty with China. Khodorkovsky would thus become an independent player in the world of geo-politics and Vladimir Putin's authority would be correspondingly weakened.

Not surprisingly, the Kremlin dragged its feet over the China pipeline. It began to promote a different, much longer route terminating at Nakhodka on the Sea of Japan. But Khodorkovsky did not take the hint and continued to lobby for his preferred option. In a statement in late 2003, provocatively titled 'It is my duty to fight', he pointed out that the Kremlin's plan would involve much greater construction costs, that oil arriving at Nakhodka would still have to be loaded onto tankers to be delivered to Japan or Korea, and that Russia would lose the goodwill of the Chinese, who had already promised to help with construction costs if the pipeline went to Daqing:

Take, for example, the building of an oil pipeline to China. I believe this issue should not be dealt with on a government level — it's a business matter. But politicians nonetheless raised the issue on a government level for reasons that are quite clear. Can I, as a company director, calmly watch as politicians decide to route the pipeline 5,000 kilometres to Nakhodka? When I and my specialists know for certain that a pipeline to Nakhodka will be unprofitable, and the government as well as society will have to finance the oil production? Should I be silent in this situation? I believe that in this case a purely political decision should not be made.

Throughout the first half of 2003, Khodorkovsky's persistent hectoring over the China pipeline evidently added to the Kremlin's growing animus towards him. At a meeting in St Petersburg involving Russian and Western oil executives, he made a lengthy speech calling for the liberalization of the state-owned pipeline network. At the reception that followed, he couldn't resist baiting the chairman of Transneft. 'So how did you like my loyal speech?' he asked, to which

the Transneft man replied, 'If that was loyal, then I'm a trolleybus'. Then, when an American delegate commented on Khodorkovsky's new short haircut, he replied, 'I'm getting ready for them to throw me in gaol', and smiled to show he was joking . . . Had he known what was going on behind the scenes, he might not have been so sanguine.

Igor Sechin, Putin's close aide and former colleague in the Leningrad KGB, was reported to be deeply angered by the oligarch's provocative behaviour over the Chinese pipeline project. He approached Putin and asked him to allow him a free hand to deal with the problem, but he was told to be patient. It was not until two years later, when Sechin had become chairman of the state oil company Rosneft, when Yukos had been destroyed and the Khodorkovsky problem definitively resolved, that the idea of the pipeline to China was eventually revived.

The second, even more brazen challenge to the Kremlin's authority came in the form of Khodorkovsky's stubborn insistence on his plans to turn Yukos into an independent global player in the international oil market.

As we have seen, the idea of a merger with Roman Abramovich's Sibneft had been floated as long ago as 1998 but had foundered in the stormy waters of that year's August stockmarket crash. The potential synergy between the two companies was, and remained, a very attractive proposition. Because of the great distances between oil fields in the vast expanses of Siberia, both firms were transporting their oil hundreds or even thousands of kilometres to their own refineries. If they could somehow get together, they would be able to use each other's facilities and avoid the massive transport costs. The merger plan began to resurface at the beginning of 2003 when the upturn in the energy market and realignments between some of the big international oil companies made size increasingly attractive and important.

The British giant BP had been courting Yukos as a potential partner in the round of oil marriages that took place in 2002 and had held a series of meetings with Khodorkovsky and Platon Lebedev, but BP had eventually called off the wedding to seal a partnership with Russia's Tyumen Oil Company (TNK) instead. The \$7.5 billion that BP put into that deal was the largest foreign investment ever in Russia. It made TNK's owners, Pyotr Aven and Mikhail Fridman, massively rich and created a new force in world oil called TNK-BP.

Knowing that Yukos was on the rebound, Roman Abramovich seized the moment to tap up Khodorkovsky about resurrecting their plans of five years earlier. Abramovich's formal approach was made in March 2003, just two weeks after Khodorkovsky's confrontation with Vladimir Putin at the Kremlin corruption meeting. The timing of the initiative, when Khodorkovsky was so publicly in Putin's bad books, and the well-known closeness of Abramovich to the President have prompted considerable speculation. Some commentators have suggested the two men were setting a deliberate trap for the Yukos boss; that Putin and Abramovich were plotting the first moves in a concerted attempt to destroy him. As we will see, similar allegations were to surface repeatedly over

the course of the campaign against Yukos and several key figures in the drama believe Abramovich played a questionable role in it.

For Khodorkovsky, Sibneft was an attractive partner because Abramovich had been introducing Western-style openness in its accounting and operating practices, just as he had been doing at Yukos. The companies shared similar values and similar aspirations. Their relative sizes, extracting and refining capacities all looked well suited to each other. A deal was reached relatively easily and the preliminary agreement to combine the two companies into a \$35 billion conglomerate, producing nearly one-third of all Russia's oil, was announced on 22 April. A joint news release celebrated the deal:

Yukos and Sibneft core shareholders announced today that they have agreed in principle to combine the two businesses in the largest-ever industrial transaction in Russia. The combined oil and gas group will not only be the largest in Russia but will also rank as the world's fourth largest private oil producer. The combined group will have total reserves of around 19.4 billion barrels of oil and gas equivalent. Daily crude oil production is approximately 2.3 million barrels. The combined entity will be named Yukos-Sibneft Oil Company. It is expected that Yukos's Mikhail Khodorkovsky will be responsible for the executive management of the new group, while Sibneft's Yevgeny Shvidler will be proposed as chairman of the board of directors.

Khodorkovsky was clearly going to be the new company's boss; Abramovich would take his substantial profits and bow out, while Shvidler — who had long been Abramovich's chief lieutenant — would remain on board as representative of the subsumed Sibneft. Khodorkovsky saw the deal as a major step in his master plan for world status:

By combining with Sibneft, we'll maximize our competitive advantages thanks to the synergy gained by uniting excellent management teams, highly professional labour forces and the profitable industrial assets of the two companies. The new industrial giant with its huge industrial and financial potential will reach even higher business efficiencies moving closer to our strategic goal of becoming a leader of the global energy market.

But if Abramovich was ceding his company to Yukos, he was not leaving empty handed. The deal provided for him to receive a cool \$3 billion in return for his 20 per cent shareholding, as well as shares in the new entity. The £235 million he would later pay to purchase the English soccer team Chelsea FC would hardly be missed.

Immediately after the announcement, Khodorkovsky revealed that the company had already begun its application for shareholder approval and was undertaking the due diligence necessary on both sides. Crucially, he expressed his confidence that the requisite regulatory consents would be received to allow the merger to complete by the end of the year. It was a confidence based

on inside information. Despite the row in the Kremlin, Khodorkovsky had informed Vladimir Putin of the proposed deal and the President had apparently given his approval. Leonid Nevzlin, Mikhail Brudno and Alexei Kondaurov, the former KGB general who had gone to work as Yukos's chief security analyst, all told me that Khodorkovsky was certain the Kremlin was relaxed about the merger with Sibneft. In retrospect, some of those involved with the company have come to believe that Putin deliberately misled Khodorkovsky into going ahead with the Sibneft deal in order to lure him into a trap.

In fact, it was the next stage of Khodorkovsky's expansion plans that set alarm bells ringing in the Kremlin. Whereas the Sibneft deal had been kept secret until it was announced, Khodorkovsky was dangerously indiscreet about the plans for his next steps. As early as mid-2003, he had let it be known that he was negotiating with two American oil giants, ChevronTexaco and ExxonMobil, to become strategic partners in the about-to-be-created Yukos–Sibneft conglomerate.

With the benefit of hindsight, this was clearly a mistake. The Kremlin's neuralgic fear of Russia's oil reserves falling into foreign — 'enemy' — hands was well known. Sechin, Putin and the Siloviki were horrified that they, the state, controlled only a fraction of the country's vital energy supplies and made no secret of the fact that they would like to have them back. But Khodorkovsky evidently felt he could ignore the politicians and pressed ahead with his talks with the Americans.

It was, it seems, a provocation too far. His progress towards a deal with the Americans was shadowed almost step by step by the Kremlin — the closer Khodorkovsky got to selling Yukos abroad, the closer the Kremlin got to putting him in gaol. It was no coincidence that his arrest in October would come just days after news of the US connection with Yukos–Sibneft had leaked in the Russian media.

Open Russia

Eight months were to elapse between the stormy confrontation over corruption and Putin's final decision to authorize Khodorkovsky's arrest. After February's meeting in the Kremlin, the Yukos boss was advised by friends and colleagues to adopt a more conciliatory tone towards the President he had so publicly embarrassed and whom they all knew to be looking for revenge. If Khodorkovsky did not moderate his provocative behaviour towards the Kremlin, it was certainly not through any lack of warnings about the probable consequences.

The year 2003 was moving fast for Yukos and for Khodorkovsky. He was about to turn 40 and was approaching the summit of his professional career. But he seemed less excited now by the wheeling and dealing, no longer satisfied even by the high-octane manoeuvring that accompanied the Sibneft negotiations. He told friends he was looking for a change and was considering retiring in four years time. It did not take a mathematics degree to work out that this would be in 2007, a year before the end of Vladimir Putin's term in office and the perfect moment to mount a bid for the presidency. According to Khodorkovsky's colleagues, he had no intention whatsoever to become a presidential candidate, but the rumour spread so quickly and so widely that the media began to treat it as an established fact — Khodorkovsky is going to run in 2008!

The effect on Vladimir Putin can only be imagined. Khodorkovsky's allies have tried to convince me that the whole thing was just a misunderstanding, but the more I learn about the man's character, the more I suspect he was being deliberately mischievous — that he was deliberately spreading the thought that he *might* run for the presidency. Far from being intimidated by the Kremlin's threats, he spent his final months of liberty, I believe, taunting them and daring them to act . . .

Khodorkovsky had always been concerned with his public image. He disliked the idea that the public perceived him as a thief and a scoundrel. Unlike the majority of the oligarchs, who cared for little other than making money or accumulating power, Khodorkovsky wanted people to see his good side. He told his friends he wanted to follow the example of the Americans, Carnegie and Rockefeller: like them, he had worked hard to clean up his business ethics and Yukos was now a legitimate, transparent corporation.

His Open Russia Foundation, inaugurated in 2001, made him the first of the oligarchs to engage in large-scale philanthropy in Russia. His long-serving legal adviser, Anton Drel, told me that Open Russia was deliberately modelled on George Soros's Open Society Institute and Soros Foundation:

I keep telling this to everyone, and not all foreigners understand it — but you will. Khodorkovsky is by no means a saint, yet Soros had not been a saint either. A person can grow up and do certain things — certain deeds — but then at some moment he realizes life should be lived differently from that. Something changes inside this person. And he begins spending money not on himself or even his close family but on the country. With Khodorkovsky, very large sums of money were spent. I can confirm to you that Khodorkovsky did not own a yacht, he did not have any property abroad of any sort — neither houses, nor castles, nor apartments. He didn't have his own plane — the plane came with Yukos.

Within a year of its foundation, Open Russia was spending tens of millions of dollars on good causes and Khodorkovsky had donated more money than any individual or organization in Russian history. Open Russia's influence was considerable, and the causes it supported were carefully chosen: Khodorkovsky wanted his money to effect social change in Russia, not just to patch up the failures of the current regime. In 2002, he told the *Washington Post*, 'We believe the key point here is education, and that's why we give money for education in various aspects — teaching kids how to use the internet, establishing contacts between young people in the UK, the US and Russia, training young journalists etc. The aim is very simple. Twenty years have passed. Another twenty or thirty years and we might become a normal country.'

The very names of the programmes run by Open Russia were indicative of its social aims. One, called 'New civilization', ran summer camps where children would live in tents, play games and learn the basic tenets of a democratic society. It was an idea brazenly based on the Young Pioneer movement of the Soviet era but instead of learning the ideals of Communism, the children would play the roles of business leaders, workers, the unemployed, state officials and politicians. For the duration of the camp, they would be asked to run their own society in microcosm, setting up businesses, hiring and firing workers, collecting taxes and providing pensions, calling elections and running campaigns and votes. In short, they would be introduced to the way a free-market democracy can and should function; it was intended as a deliberate eye-opener for a generation that was growing up under the 'managed democracy' of Vladimir Putin.

Open Russia set up 'Schools of Public Politics' in regional centres around the country that would take on youngsters interested in a political career and teach them the values of multi-party democracy. The 'New civilization' programme and the Public Politics Schools were aimed at providing an alternative to the pro-Putin youth movement 'Nashi', which had taken such a hold in Russia and which inculcated the statist, somewhat anti-enterprise, anti-Western values of the Siloviki in the Kremlin.

Another Open Russia initiative, 'Help and advise', was a volunteer service run by youngsters that resembled a sort of do-it-yourself network of citizens advice bureaux. Anyone with a practical problem involving access to public services, difficulties obtaining medical help or complaints about the performance of

local authorities could phone and speak to a volunteer. The volunteer would then find out the right person for the client to contact and put the two of them in touch.

At the same time, Open Russia's 'People's verdict' programme resembled an embryonic legal aid system for people unable to afford legal representation or — more likely — unable to afford the bribes needed to get justice from the courts. It offered genuine victims help in finding lawyers and advice on how to insist on their legal rights and a fair hearing.

Open Russia funded an orphanage, Koralovo, outside Moscow for the sons and daughters of parents who had died in the service of Russia. It was run by Khodorkovsky's father Boris Moiseevich and mother Marina Filippovna and it, too, was used to teach social values to the younger generation. Conditions at Koralovo were not luxurious, but there was a sports hall and a swimming pool and reliable medical care. The orphans were given a proper education that prepared many of them to go on to university. Every child was given his or her own laptop with internet access, and actively encouraged to explore the diversity of opinions beyond those expressed in the regimented pro-Kremlin media. Open Russia was planning to roll out the internet programme to schools across the country with the stated aim of encouraging children to think for themselves, not just accept what they were told by state television and newspapers.

Khodorkovsky gave public lectures about his charity work and made no secret of the social engineering he was undertaking: 'We consider that our own mentality, the mentality of the older generation is very difficult to alter', he would tell his audience. 'But if our work with the youth of Russia is successful, then in fifteen or twenty years they will start to determine the politics of our country. They will have been born in the new Russia and they will turn Russia into a normal country. The size of our big companies will no longer be dwarfed by those in the West; our pensions will no longer be smaller; things here will become normal.'

The recurring emphasis on the need to make Russia 'normal' was another dig at Putin: in Khodorkovsky's view, the current regime had led Russia into a distorted model of social values that only he — and people like him — could correct. In all his prescriptions for Russia, the model Khodorkovsky favoured was very much a Western one. His speeches stressed openness, pluralism and enterprise:

The economic growth of Russia depends on its intellectual potential. Our country has between 2.5 and 4 million people who are the active, driving force of our society. These are our scientists, scholars and entrepreneurs, our intellectual élite . . . Our task is the production of highly qualified individuals, and how do we do that? Most importantly through education and the cultivation of initiative . . . And equally importantly, we must ensure that it is attractive for these people to remain in Russia and not go abroad . . .

Khodorkovsky's analysis of conditions in Russia was scathing: under Putin

the state had not only neglected to develop the country's intellectual potential, he thundered, it had contributed to a massive flight of human talent:

By creating an atmosphere of uncertainty and vulnerability, our legal system has done great damage to young entrepreneurs in our country . . . These people need to feel independent and safe in conditions of democracy . . . The statist ideology that pervades our country has prompted many of them to emigrate. You can work out the damage this has done. If a 25-year-old entrepreneur decides to leave Russia because he has been insulted by a policeman or because the tax authorities have come and rubbed his nose in the dirt, the country loses millions of dollars in lost potential. We've just thrown it away. And a hundred thousand such entrepreneurs are leaving Russia every year!

Khodorkovsky had instituted openness and transparency in Yukos and had seen its prosperity grow; now he was recommending the same model for the country as a whole. If Russia could turn away from the old ways of corruption, arbitrary injustice and coercion, he seemed to be saying, it would benefit materially in the same way Yukos had benefited. The chief obstacle to the achievement of such benefits was the state:

The state should serve the interests of the people. The state should not be some great idol that they have created . . . An individual's responsibility is to serve his own interests, those of his family and then those of the society he lives in. The state is there to serve the interests of the individual. We need to work hard so that these values become natural for our young generation. That is the work that Open Russia has been trying to do.

It is clear that Khodorkovsky's growing passion for philanthropy after 2000 had an element of self-interest. Even if its stated goals were long term and concerned with changing mindsets rather than presidents, it was nonetheless going to be seen as threatening and provocative by the Kremlin. His prescriptions for smaller government and *laissez-faire* capitalism were in stark contrast to Putin's model of 'managed democracy' in which the hand of the state was heavy and omnipresent. Open Russia's ostentatious provision of assistance and basic services to the citizens of Russia was a tacit reproach to a state that failed its subjects . . . and Khodorkovsky was not slow in pointing it out:

The problem with our country today is that there is no civil society; it is completely absent. When they say 'that's good', they mean: 'that's good for the state'. We talk about the position of the state, the state's approach, the interests of the state. This is totally ridiculous; it's utter nonsense! Hence our work with children, where we teach them the meaning of democracy and liberal values and how to live with them.

Shortly before his arrest in October 2003, Khodorkovsky was even more explicit about the quasi-political aims of Open Russia and about the obligation

he felt himself under as a businessman to be active in the sphere of social policy:

Our country has a history of serfdom and slavery. A very brief interval ended recently. And, unfortunately, the psychology of society is the psychology of serfdom.

In this situation, the responsibility of successful businessmen (regardless of whether it's small business or big business) is to support the democratic process, regardless of its potential problems. This is the moral duty of these people — a duty to their own children to take part in this process.

Regrettably, we still do not have the institutions of civil society, which would allow us to hand this function over to political parties and public organizations.

For a society like ours, with a history like Russia's, this is normal — we have to understand this, but we also have to struggle to change it. First of all, through education — preparing the future generation. We must say that we have a choice — not between civil society and business, but between business and authoritarianism. This isn't a perfect alternative, because business only recently walked around in maroon suits and even today doesn't appear very appealing.

Still, we have a real choice: between people in military uniforms and a civil society. Our strength is pretty much equal. And the problem is not that one side has military uniforms and weapons while the other side has nothing. The problem is the mentality.

I asked Leonid Nevzlin if Open Russia had actually been a vehicle for political manoeuvring behind the pretence of charitable intentions. He was adamant that Khodorkovsky had been as sincere in his philanthropic work as the great tycoon-philanthropists of the West:

He was developing like a normal major business develops. Look what happens in the West: look what importance Microsoft has started to place on the development of civil society, philanthropy, education. We were simply running slightly faster, but in general it was the same thing . . . It was nothing more than helping people to be free, creating equal conditions for people to get quality education, OK?

Regardless of your material resources, you should have equal access to a normal education, to a normal future. In other words, we were attempting to produce normal people, creative people in that country of slaves!

Maybe later it started to go the other way — maybe there *was* some politics in it. But he did nothing illegal. Look, in the West too there are businessmen who actively support the institutions of civil society — there are plenty of examples. In the West and in the US, wherever you like, there are businessmen who are actively involved in financing political parties . . .

But Russia, of course, is not the West and Khodorkovsky knew it.

His next move, into the dangerous field of the media, suggested his intentions were not quite as disinterested as Nevzlin makes out. Open Russia had set

up a training scheme for young journalists in which promising reporters from regional newspapers, television and radio were invited to learn from prominent figures in the industry. The fact that the guest lecturers came from independent or even opposition journals such as *Novaya Gazeta*, *Kommersant* or the internet site <gazeta.ru> was an indication of the ethos the training scheme was intended to inculcate. One lecturer said he found it hard to convince the trainees to question the official version of stories promulgated by the central or local authorities. He said they had lost the journalist's natural reflex to question the motives of politicians and PR men, so he had to make them promise always to ask themselves, 'Who benefits from this story?'

In early September 2003, with his quarrel with the Kremlin close to boiling point, Khodorkovsky took a further provocative step into the media business by buying the newspaper, *Moscow News*. Under Mikhail Gorbachev and Boris Yeltsin, the journal had been a flagship of liberal, reformist ideas, but it had been muzzled since Vladimir Putin came to power. An announcement by the director of Open Russia, Irina Yasina, made it clear that Khodorkovsky was intent on re-establishing the 'paper's liberal credentials':

There is a clear deficit of free democratic press in today's Russia. If the government of Mr Putin continues to impose its ideology, soon there will be no forum for the liberal debate which people got used to during the Yeltsin years.

As if to confirm his intentions for *Moscow News*, Khodorkovsky immediately appointed a new editor. Yevgeny Kiselyov had been a prominent liberal journalist in the Yeltsin years and had ended up as the star presenter on NTV, the independent television channel owned by the oligarch Vladimir Gusinsky. When Gusinsky fell out with Putin, he was forced to hand over the channel to the Kremlin and went into exile. The NTV journalists initially refused to follow the Kremlin line and tried to maintain the station's independence, but most of them — including Kiselyov — were fired and blacklisted. Kiselyov had been a strident critic of Vladimir Putin, and Khodorkovsky was well aware of this when he appointed him. Commentators in the independent and state media alike regarded Khodorkovsky's purchase of *Moscow News* as a deliberate provocation. Kiril Rogov, a respected political analyst, wrote that he was 'trying to consolidate the remains of the liberal opposition around Yukos'; and an unnamed senior politician was quoted as saying 'Khodorkovsky's latest moves will be seen as a red rag to the Kremlin'.

Mikhail Brudno confirmed to me that the Kremlin was right to be concerned: Khodorkovsky really *was* planning to go into politics:

Brudno: My honest opinion here is that he had simply grown bored of business and he decided to go into politics instead. He said he wanted to establish a democratic society in Russia. He wanted to use his money for the purpose of restoring civil society

in Russia. Restore democracy. He said he wanted his children to live in a democratic Russia.

Sixsmith: When did he make that decision — that he wanted to go into politics?

Brudno: It was at the end of 2002, the beginning of 2003. That was when I first heard such talk from him. It was because he knew that there was nothing further he could do in the world of business . . . he had nowhere further to go.

That was how it was all playing out in his head, ‘So, what’s next? How about politics? We can work to establish a civil society in Russia.’ His idea was to get into the Duma as the leader of one of the political factions, and begin working in the world of politics. That was his idea, the way I see it: to work in politics and build a civil society . . . He had to first finish one project, Yukos, put it aside, forget about it, leave it, and then move on. On to other things: politics, democracy, and such . . . with a banner proudly up above his head — Fine! Who wants to join me in fighting for democracy? Follow me!

Sixsmith: And that alarmed the Kremlin, did it not?

Brudno: They were sure that he was after their power and authority, that he would take their power away from them. And he would have done, if he had had enough time! He would have taken their power away from them. He would have taken away their absolute power.

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Friends in the West

If Khodorkovsky was squaring up to Putin at home, he was coming into conflict with the President abroad as well.

In global politics, the early months of 2003 were dominated by the build-up to the American and British invasion of Iraq, a conflict the Kremlin was convinced was all about oil. Moscow's official position was that there were no legal grounds for an invasion and that the United Nations should be given time to search for any weapons of mass destruction before resorting to military action. The Russian ambassador at the UN made clear that there would have to be a new resolution in the Security Council before an invasion could be declared legal, and that such a resolution would never be passed because Moscow would veto it.

Putin's opposition to intervention in Iraq had a lot to do with Russia's traditional allegiances in the region (Baghdad had been an ally of the Soviet Union and had maintained strong ties with the Russian military), but it was also linked to the strong suspicion that Washington wanted to seize Iraq's energy supplies. In a world where the future looked certain to be dominated by the struggle for oil, the Kremlin was unwilling meekly to cede its influence over such an important potential supplier.

Mikhail Khodorkovsky took a very different view. He believed (correctly) that if George Bush wanted to invade Iraq, he would do so whatever Russia and France and a few others said about it. In such circumstances, he felt there was a unique opportunity for Moscow to forge an alliance with Washington that could have far-reaching benefits for both sides. He argued publicly that Russia should support the US over Iraq, that it should guarantee America's oil supplies in the event of a lengthy conflict in the Middle East, and that such a policy could result in the establishment of a 'special relationship' between the two countries, similar to the one supposedly enjoyed by Great Britain.

In a deliberately provocative interview entitled 'A Russian's plea to back America', with the American magazine *BusinessWeek* on 13 March 2003, just five days before the invasion began, Khodorkovsky said:

It would be really stupid to let this opportunity [for a long-term strategic partnership with the US] slip through our fingers. For economic development, Russia needs investment, Russia needs highly trained people, Russia needs markets, Russia needs technologies. When we take a look and see who would be the greatest benefit to us in all these directions, the answer is clear: America. Then there's the matter of security, which has nothing to do with business. We've got a lot of regional problems and our

only realistic ally is America. So if we're going to prioritize things, then we have to say the most important relationship is with America.

Asked if he had conveyed his views to President Putin, Khodorkovsky answered, 'He knows where I stand. It's not a secret . . . I am well known in Russia for my pro-Americanism.'

Indeed he was. And that was part of the problem.

The Kremlin had not failed to notice his frequent shuttling backwards and forwards to Houston and Washington, his hiring of American executives to help him run Yukos, his preference for US technology and know-how and his promotion of the US as a vital market for Russia's oil and other exports. Putin's aides were reporting that Khodorkovsky had become little more than an Anglo-American asset in the Russian business and political world. As evidence, they pointed to his Open Russia Foundation, which was headquartered in London and Washington and numbered Henry Kissinger, Lord Jacob Rothschild, David Owen and the former US Ambassador to Russia, Arthur Hartman, among the leading members of its board.

There is no doubt that much of Khodorkovsky's pro-Americanism was rooted in commercial self-interest, but it seemed to have the added attraction for him that it was guaranteed to increase the annoyance and resentment of his personal adversary in the Kremlin. He was thumbing his nose at the President; the feud between the two men was becoming increasingly *ad hominem*.

If Khodorkovsky was throwing in his lot so decisively with the West, though, he needed to be sure his connections there would be strong enough to protect him against the backlash he was courting from the Kremlin. And if he was convinced that his standing in Washington and London would guarantee his safety, he was to be severely disappointed.

Throughout 2003 Khodorkovsky was continuing to negotiate what he privately described as the deal of the decade — the project to sell off a large part of the newly formed Yukos–Sibneft conglomerate to a major Western partner. He had successfully kept the negotiations with Abramovich secret until the day their merger was unveiled, but news that Khodorkovsky was meeting American oil executives to talk about stage two of his master plan was beginning to leak out in the Russian media. Several Yukos executives have told me that Khodorkovsky was sufficiently concerned about the effect this would have on the Kremlin — and on the attitude of the monopolies regulator — that he went personally to talk to Vladimir Putin. Leonid Nevzlin told me Khodorkovsky explained to Putin that attracting American investors to Yukos would be good for the economy and good for Russia:

From the point of view of developing the business, its interests, and if the country was moving in the direction of a market economy, attracting additional foreign investors in the company's shares and partners — other oil companies — for future development was the only way forward. Because it creates stability — for us and for America.

If foreign oil companies were allowed into the Russian oil market, it would have nothing to do with selling our resources abroad — as the so-called ‘patriots’ were making out — because they cannot be taken abroad. You can’t carry off gas or oil fields!

Therefore for any state with raw materials, it’s a blessing if technologically highly developed companies are to operate on its territory, isn’t it? We understood at the time that this would increase sales markets, increase pipeline construction, increase activity in our ports, wouldn’t it? And improve production technology, yes?

The addition of foreign partners, foreign companies would be very good. So, as a result this became as it were our main plan . . .

Nevzlin says Putin listened to Khodorkovsky’s arguments with his usual stony face that betrayed little of what he was thinking. But Nevzlin believes Putin and his lieutenant Igor Sechin were already secretly committed to destroying Yukos and its impertinent oligarch. He told me that the President’s smiling encouragement of Khodorkovsky’s proposals was a double game:

When we told Putin about our plans, it became a head-on collision course. Not parallel, but completely head-on! In personal one-to-one meetings, Putin *encouraged* Khodorkovsky to follow this direction of development [negotiations with foreign oil companies]. But of course he was dissembling. He had already decided not to allow it — never! Because he believed it was a threat to the absolute power that they wanted to keep for themselves.

Sixsmith: So at first Putin agreed with your . . .

Nevzlin: I can’t quote Putin’s exact words. But I know this from Khodorkovsky . . . and partly from other people, Abramovich and his entourage . . . that the merger of Yukos and Sibneft and the future exchange of shares, or the sale of part of the company to an American company was approved by Putin.

Sixsmith: It was approved?

Nevzlin: Yes!

Sixsmith: It’s strange, though, because everyone thinks it was precisely because of the American negotiations that the attack on Yukos and on Khodorkovsky occurred . . .

Nevzlin: Yes. It was! They wanted to attack and so they attacked. In any case, they wanted to take it [Yukos] over immediately. ‘They’ meaning not just Putin, but a group of people . . .

Sixsmith: The Siloviki and . . .

Nevzlin: A whole group of people . . . They wanted to take back Yukos, or to put it crudely to bring Khodorkovsky down . . . which was the same thing . . .

Sixsmith: Yes . . .

Nevzlin: To take over Yukos — that was the main aim. To grab the oil for themselves. So Khodorkovsky or any other companies wouldn't get rich. So he wouldn't pose a threat to their power with his financial might and his independence. That's why they were going to do it.

Nevzlin, of course, is being wise with hindsight. When the Yukos boss emerged from his talks with the President, he genuinely believed that Putin was in favour of the deal he was hoping to make with the Americans. Khodorkovsky had failed to spot that he was walking into a trap.

PART FOUR

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The Family and the Siloviki

It may seem that Khodorkovsky was naïve to believe the reassurances he was getting from a dissembling President Putin, but he was at the same time receiving further comfort from two or three very highly placed contacts in the Kremlin. And his absolute trust in those contacts — whom he considered long-time friends — may explain his miscalculation over the President.

The events of 1996, when the oligarchs' strenuous efforts miraculously got Boris Yeltsin re-elected in the face of a strong Communist challenge, had left Khodorkovsky with very good connections in the country's leadership of the late 1990s. He was especially close to two members of the so-called 'Family', the group of liberal reformers who were Yeltsin's most trusted aides — Mikhail Kasyanov, soon to become Prime Minister, and Alexander Voloshin, the chief of staff. Both men had stayed in office after Vladimir Putin replaced Yeltsin in 2000 and were regarded as the leading representatives of the liberal tendency in the Kremlin (still referred to by its old name, the Family). By 2003 the Family was being increasingly challenged for the reins of power by the new men of the Siloviki, the hardline statist former KGB operatives that Putin had brought into his administration, but the liberals were fighting their corner and were useful allies for Khodorkovsky to have.

In fact, Khodorkovsky's conflict with the Kremlin was actually a clash with the Siloviki, led by Igor Sechin and Viktor Ivanov, who regarded his determination to develop private enterprise in the energy sector as a threat to the interests of the state. In the early years of his presidency, Putin had retained at least the pretence of the liberal beliefs he had espoused under Yeltsin, and had maintained a strategic balance between the Siloviki and the Family. As time went by, however, the President began to fall increasingly under the influence of the hardliners.

The historic importance of the Khodorkovsky issue is that it became the crucial litmus test for political ideology within the Kremlin: it was the catalyst that brought to a head the rumbling struggle between the liberals and the Siloviki.

While Mikhail Kasyanov and Alexander Voloshin were privately reassuring Khodorkovsky that they would protect his interests, and publicly defending the free-market entrepreneurialism of the Yukos managers, Sechin, Ivanov and company were castigating him in public and bending the President's ear in private to eliminate him once and for all. Faced with the crisis in relations with Khodorkovsky that developed in 2003, Putin was forced to make a choice between the two competing sets of advice. His choice would ultimately determine which Kremlin faction emerged victorious and would set the whole direction of Kremlin politics for the foreseeable future.

The first indication of which tendency was gaining the upper hand came in April 2003.

Khodorkovsky had asked for a private meeting with the President to discuss the progress of the merger with Sibneft and the new negotiations with the Americans. He was granted an audience on 26 April and said afterwards that the discussions had gone well . . . until the very end of the meeting. Khodorkovsky said Putin had continued to support the Sibneft plan but, just as he was preparing leave, the President had raised the question of the parliamentary elections that were scheduled for the end of the year. According to Khodorkovsky, Putin asked him directly to keep Yukos out of the campaign for the Duma and specifically to pledge that the company would not finance the efforts of any opposition parties. Khodorkovsky says he replied calmly that Yukos was not involved in any political financing, but that he as an individual reserved his right to donate to any party he chose. Putin reportedly agreed that any Russian citizen has that right, but asked for an undertaking that Khodorkovsky would not fund the Communists, who represented the biggest threat to the Kremlin. Khodorkovsky again prevaricated, saying that if some Yukos shareholders wanted to back the Communists with their own money, there was not much he could do about it.

Sensing, rightly or wrongly, that Khodorkovsky was lying to him, Putin set a trap. He had heard from one of his aides (probably Sechin, though this is impossible to confirm) that Khodorkovsky had already held a meeting with the Communist leader Gennady Zyuganov to discuss a contribution to Party finances. Without mentioning this information, Putin asked Khodorkovsky if he had been in contact with Zyuganov, and Khodorkovsky said he had not. Khodorkovsky maintains his answer to Putin was factually correct, but I suspect it may not have been: he was undoubtedly giving money to the Communists and I believe he would not have done so without a personal meeting to tell Zyuganov what he expected in return.

In any event, Putin smiled and bid Khodorkovsky good day. When his visitor had left, the President reportedly flew into a rage and accused the Yukos boss of nakedly lying to his face. Just like the public spat at the February meeting, the encounter was to prove an important turning point in the rapidly deteriorating relationship between them.

Putin's KGB-acquired ability to hide his emotions — and to tell people what they want to hear — is evident from the fact that Khodorkovsky appears to have come away with an entirely positive impression of their discussion. According to Irina Yasina, the head of his Open Russia Foundation, he spent a long time after the meeting praising the President for his wisdom in recognizing the need to respect a free opposition, to combat corruption and to encourage powerful individuals like himself to break free from the unnecessary constraints on private enterprise. Khodorkovsky could hardly have formed a more mistaken impression of Putin's intentions . . .

On 19 June 2003 Yukos's head of internal security, Alexei Pichugin, was

arrested without warning and charged with murder. Two dozen armed SpetsNaz troops stormed his office, ransacked his filing cabinets and impounded his safe. It was the Kremlin's first public shot in the impending war. And it was an indication that the liberal Family faction had lost out to the Siloviki in the battle for the President's ear.

Alexei Pichugin was born in Moscow in 1962. He trained as a soldier in the ranks of the Interior Ministry (MVD) troops but was recruited to join the KGB in his early twenties. For over ten years he served in the KGB's military secret service, the GRU, where he attained the rank of major. But when Boris Yeltsin lost faith in the KGB after its involvement in the failed coup of 1991 and began to slash its numbers, Pichugin and thousands of other operatives found themselves surplus to requirements. In 1994 he left the service and joined the security division of Khodorkovsky's Menatep Bank. When Menatep bought Yukos 1996 he moved to become head of a section within the oil company's security service. After a couple of years Pichugin was promoted to the leadership of Yukos's internal economic security department where his duties included the protection of the company's real estate and the elimination of theft from within the organization.

His colleagues considered him a professional operator — not surprising for a man who had received official commendations for his work in the KGB — and tough but fair in the way he treated those working for him. Pichugin was a family man, with a wife and three young sons.

But the picture painted of him by the Russian Prosecutor's Office is less benign. According to the prosecution, Pichugin was a ruthless murderer willing to resort to the most extreme measures in the interests of his company and of his boss, Leonid Nevzlin. The charges brought against Pichugin in June 2003 — and many more were to follow in the next two years — were that he had hired two hitmen, a man and wife team, to murder a business rival who had allegedly crossed the Yukos management over a business deal. The murder was attempted but failed. Pichugin is then alleged to have had the hitmen themselves murdered, although no bodies or corroborating evidence were ever found.

He was later charged with another killing, that of the mayor of the town of Nefteyugansk. This latter charge was to create considerable controversy in 2006, when the case became entangled in the poisoning of Alexander Litvinenko by former KGB agents in London. I will return to it in a later chapter, because I have since discovered evidence which, if true, seems to exonerate Pichugin and implicate the Kremlin itself.

As for the initial charges brought against Pichugin, it should be said that the years in which the murders were alleged to have taken place were a time of bloody conflicts between rival business groups. Lawlessness was growing, as the state seemed to forfeit its role in policing business feuds and some tycoons considered assassination a simpler way of resolving a problem than negotiation or litigation. I remember with horror that the owner of the building where I had my office in Moscow was gunned down simply because he would not accept a

buyout of his stake in the property. The vast majority of business-related murders went unpunished, partly because the police did not have the resources to stem the gangsterism in the world of commerce, and partly because big business had *plenty* of resources to bribe law enforcement agencies to drop any potentially embarrassing investigations.

In June 2003, Pichugin's arrest created some anxiety in the Yukos management, but he was not an executive of the company and at first they did not panic. Even if he were to be found guilty of murder, they reasoned, it would not have serious consequences for the company itself. Pichugin's boss and overall head of security for Yukos, Leonid Nevzlin, was initially relaxed about the affair, according to Nevzlin's assistant, Eric Wolf: the arrest had come out of the blue and there was no indication that it would affect the progress of the company's expansion plans:

Wolf: When Pichugin was arrested it was still a case of, 'Well, some security officer at Yukos has been arrested. What the hell?' There were some 120,000 employees.

Sixsmith: But he was quite senior, wasn't he?

Wolf: He was head of the economic security department and the Yukos security service. But you never know . . . somebody, or maybe even his wife, can be caught stealing.

Sixsmith: He was not someone you or Leonid knew personally?

Wolf: No. I mean, Leonid probably knew him personally, but at a working level, not a social level. He was an expert in economic security. Basically, he was the one who was in charge of things if someone was stealing from the company.

According to Eric Wolf, the company's line was that they had no idea about the crimes Pichugin was accused of and they were content for the justice system to take its course. But the Russian media — and eventually the Russian Prosecutor's Office — were soon to allege that Pichugin had carried out the murders and attempted murders on the direct instructions of Leonid Nevzlin. Far from being 'unknown' to Nevzlin, they claimed he was actually his personal bodyguard and that of his whole family. I asked Wolf, who was formerly a security official for the Israeli government with strong links to Mossad, if he could swear Nevzlin was not involved:

Wolf: Look. In 2002, when I was looking to leave the government service and looking for another job, I had several offers and one of them was from Leonid. I could check them all because of my previous 'background' shall we say . . . I did not want anything on my conscience. I checked them all, and Leonid and the whole Yukos group were completely clean.

Martin Sixsmith: They came up clean . . . even using all the people you knew?

Wolf: Absolutely. There were a couple of people who offered me more money than them, but I would not touch it because I just did not want to have any problems.

Sixsmith: Well, that is important. I will attribute none of this to you, unless you agree . . .

Wolf: You can take it at face value; and you can use anything you want . . .

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More arrests

In retrospect, it is clear the Pichugin arrest was a warning by the Kremlin. Behind the scenes, Putin, Sechin and — according to some Yukos bosses I have spoken to — Roman Abramovich were cooking up a plot to destroy Khodorkovsky. But they were starting with relatively small fry.

Exactly *why* the Kremlin elected first to knock over a Yukos pawn rather than its king has led to considerable speculation.

The argument that it was necessary to put Pichugin in the dock so the charges against him could be used to condition public opinion against Khodorkovsky hardly holds water: public opinion was *already* firmly against the oligarchs, especially those like Khodorkovsky who were perceived as Jewish.

The view that the Kremlin feared Khodorkovsky seems equally improbable in light of subsequent events.

More credible is the suggestion that the liberal voices in Putin's administration still had enough influence at this stage to restrain the attack dogs of the Siloviki, so that Sechin and his faction were forced to ratchet up the stakes gradually.

One final explanation is that the Kremlin was perhaps giving Khodorkovsky a series of warnings with the aim of getting him to back down over his political ambitions, reverse the sale of Yukos to the Americans and eat humble pie before Putin. It is an interesting suggestion and one that has been put to me by several influential players in the story. As things turned out, Khodorkovsky spurned whatever chance of repentance that might have been on offer to him. The question of whether he could have brokered a compromise with the Kremlin — and why he refused to do so — is one of the most intriguing aspects of the drama that was about to unfold . . .

If Khodorkovsky, Nevzlin, Wolf and the others were able to ignore Pichugin's arrest, they could hardly ignore the next one.

On 2 July 2003, Platon Lebedev, the chief executive of Group Menatep, the holding company that owned Yukos and various other businesses, was roused from his hospital bed by policemen with guns and handcuffs and led to a waiting police van. Lebedev was Khodorkovsky's long-time business partner and friend. All the Yukos executives I have met with speak of him as a sort of older brother or father figure, admired and respected for his intellect, his business brain and his mastery of macroeconomics. As the main director of Menatep, Lebedev was involved in all investment decisions, investor relations, accounting, financial reporting, compliance, due diligence and legal matters. He was responsible for the consolidation of Group Menatep's business holdings in the fields of oil and gas, financial services and asset management.

Unlike Alexei Pichugin, Lebedev clearly *was* an important figure in Khodorkovsky's empire. The Kremlin was dramatically raising the stakes.

From the day he was arrested, Platon Lebedev was defended by the Russian lawyer and specialist in international law, Anton Drel. When I went to meet him in London, I found a smart young man dressed in a Savile Row suit and expensive black Oxford shoes. Sipping his coffee and nibbling on a shortbread biscuit, Drel seemed relaxed and at ease with life. In fact, the years since 2003 were far from easy for him, as the Russian authorities pursued and harassed him for his temerity in defending the Yukos executives. After receiving threats in Russia he made his base in Britain, from where he conducted legal proceedings on behalf of Lebedev and Khodorkovsky at the European Court of Human Rights.

Looking back on the events of 2003, Anton Drel told me the arrests did not come completely out of the blue. The Russian Prosecutor's Office had contacted Lebedev as early as January that year when he was asked to give evidence in a case involving the exiled oligarch Boris Berezovsky — the Menatep Bank had made some loans to Berezovsky, and Lebedev was requested to give testimony as a witness in a complicated financial case involving credits to the LogoVAZ car company. Drel says he attended the hearing with his client and Lebedev was explicitly told he was not under investigation himself. They heard nothing further until the middle of June, when they were told the official record of Lebedev's testimony had been drawn up and he should come in to sign it. Drel again accompanied his client to the Prosecutor's Office where they were unexpectedly ushered into the office of the deputy chief investigator, Salavat Karimov.

The tone of the proceedings, which had so far been polite and respectful, now changed markedly. After a short preamble, Karimov announced he had evidence that proved Lebedev was deliberately obstructing the LogoVAZ investigation by shielding a Menatep employee who made the suspect loans to Berezovsky. Lebedev is a man renowned for his short temper, but he restrained himself and promised to help find the person in question. Karimov then brought up a new series of seemingly unrelated allegations connected with Menatep Bank's role in trading in Russian government promissory notes during the financial crisis of 1998. Lebedev lost his temper. He proceeded to lecture the investigators at great length and with some vehemence on the subject, after which he was allowed to leave without any charges against him.

Anton Drel says the Prosecutor's Office subsequently began to harass Lebedev with repeated demands for him to attend 'evidence giving' sessions. He attended as requested, but it was clear the situation was becoming tense. At the end of June, the Prosecutor rang and asked Lebedev to come for another interview on 2 July at 10 a.m. By now his lawyers felt it highly likely that charges were being prepared against him. Lebedev sent word that he would come to the meeting, but on 1 July he called an ambulance and checked into a Moscow hospital complaining of heart trouble.

It is true that Lebedev suffers from a congenital heart complaint known as

cardiovascular dystonia, which can cause abrupt swings of arterial pressure, severe headaches, and occasional loss of consciousness. He also has chronic hepatitis that has resulted in some cirrhosis or carcinoma of his liver. It may indeed be the case that his health deteriorated on 1 July 2003, but the timing — just as his lawyers were warning him he could face arrest — suggests Lebedev was taking advantage of an old Russian tradition that a wanted man who checks into hospital is given at least a temporary reprieve from the hand of the law.

Anton Drel kept the appointment at the Prosecutor's Office and tried to explain his client's absence. He says the investigator became abusive and shouted at him, 'Where's your Lebedev, then? He's taking the piss out of us. You guys ripped off the whole country. Where are you hiding him?'

The Prosecutor issued a summons for Lebedev to appear the next morning, but he never had the chance to comply with it. That same evening, 2 July, he was arrested in hospital on the grounds that he had failed to appear for interrogation. He would later argue in court that this was an abuse of judicial process, and that there was no chance of his fleeing from the investigators as his baby daughter had been born just two weeks earlier.

When Anton Drel was summoned to see his client in the police cell, he says Lebedev appeared to be in very bad condition. According to Drel, the attack of hypertension which had put him in hospital meant Lebedev was unable to speak and barely able to understand the charges against him. The charge sheet that was eventually drawn up was to be a long one, involving seven separate articles of the Russian penal code:

Article 159, Part 3 — Grand theft of property by an organized criminal group

Article 315 — Malicious non-compliance with a court ruling by representatives of a commercial organization

Article 165, Part 3 — Damage to assets caused by fraud committed by an organized criminal group

Article 199, Part 2 — Conspiracy to evade corporate tax obligations by an organized group, multiple counts

Article 198, Part 2 — Evasion of personal tax and social security obligations by an individual

Article 327, Part 2 — Forgery of official documents, multiple counts

Article 160 — Embezzlement of property.

The classification of Lebedev as part of an organized crime group made the charges particularly serious, and the potential penalty very severe. News of his arrest spread quickly on the Yukos grapevine. Mikhail Khodorkovsky's first reaction was one of shock and anger. His contacts in the government — Prime Minister Mikhail Kasyanov and the President's chief of staff Alexander Voloshin — had assured him they would give him advance warning of any move by the Kremlin Siloviki against Yukos, but they had signally failed to do so.

Khodorkovsky spent the morning of 3 July on the phones, trying to get an

explanation of what was going on. He told his colleagues he felt personally responsible for what had happened, telling some of them, 'I will never forgive myself for Platon being arrested.'

That evening, he went to see the Prime Minister. Kasyanov was reportedly reassuring. He said he had spoken to Putin, who had asked him to relay the message that the arrest was 'not political'. According to Kasyanov, Putin implied it was the result of in-fighting between the oligarchs — one of them had allegedly pressurized the Prosecutor into arresting Lebedev as a form of commercial intimidation, but things would soon be sorted out and he would be released.

Voloshin also rang to say he was working on Lebedev's behalf and advised Khodorkovsky not to do anything to exacerbate the situation. Khodorkovsky was not reassured. Desperate to explore all possible means of help, he asked his aides to ring Roman Abramovich who was the closest of all the oligarchs to Putin. When they asked Abramovich to intercede with the President he refused, saying he was too afraid to do so.

The news from prison was worrying. True to his truculent nature, Lebedev was refusing to cooperate with the investigators and had reportedly been involved in a series of angry confrontations, accusing them of violating his civil rights and using false pretences to keep him in custody. This latter point was supported by Anton Drel. He submitted a request for his client to be released, arguing that defendants charged with commercial crimes are customarily granted bail in Russia. But the Prosecutor's Office pointed out that Lebedev was being charged with offences as 'part of an organized crime group', which warranted physical detention.

As the stand-off escalated, Lebedev was moved to Moscow's high-security Matrosskaya Tishina Prison. At first he was put in the prison hospital, but because of his continuing defiance of the interrogators he was moved to the communal holding cell. Housing dozens of hardened criminals in cramped insanitary conditions, these 'general' cells are renowned for their violence and for the spread of contagious diseases. Because Lebedev continued to refuse to cooperate with the investigators, he was subsequently put into solitary confinement.

When Anton Drel was given access to his client, Lebedev's first question was, 'How many others have they arrested?' He was convinced the Kremlin had embarked on the annihilation of Yukos. Within a month, the authorities had arrested a total of eight former or current employees of Menatep or Yukos, and Lebedev's personal secretary had fled abroad to avoid being interrogated. The campaign of 'intimidation through arrest' was to reach its zenith three months later, with the arrest of Mikhail Khodorkovsky.

Yukos and the struggle for Russia

Developments in the Pichugin case were becoming increasingly alarming for the Yukos management. Pichugin had been transferred to the Lefortovo Prison, a longstanding KGB interrogation centre now run by the KGB's successor organization, the FSB. For several weeks after his arrest, he had refused to admit any involvement in the crimes he stood accused of and rejected suggestions that his boss Leonid Nevzlin had ordered the murders and attempted murders. But in Lefortovo, Pichugin was taken for a further interrogation session, which his lawyers were not allowed to attend. After a half-hour of questioning, Pichugin was given a cup of coffee. Having taken a few sips, he claims he felt a numbness in his legs and a ringing in his head followed by a blackout that lasted for several hours.

When he came round, he felt weak and had a strong headache. According to his lawyers, Pichugin noticed an injection mark on his arm and another on his wrist. He was refused a medical examination or any treatment. His wife Tatiana says she was shocked when she next saw him — his appearance was pale and his speech was impaired. Having taken the advice of medical consultants, she concluded her husband had been sedated and drugged. She wrote a letter to the prison authorities, in which she accused them of administering psychotropic drugs with the aim of forcing him to incriminate himself and his Yukos bosses.

When word reached Khodorkovsky that Pichugin had allegedly confessed and implicated Leonid Nevzlin, one Western executive who was in Yukos headquarters says there was panic in the organization. I asked the executive, who spoke on condition of anonymity, if it appeared to be panic that the company's crimes had been revealed. He said it seemed to him to be panic that Pichugin had been drugged, and tricked into saying things that were untrue:

I got a call, 'Khodorkovsky wants you in his office in ten minutes', and that was unusual because things were more orderly than that. 'Okay, fine.' I go up there. It was the first time I ever saw him really agitated. It was not the usual calm exterior; it was much different. The purpose of this meeting was he had just learned, apparently, that Pichugin, as he explained it, had been questioned and they had used drugs and Pichugin had implicated Nevzlin in the murder of the mayor and the couple, and he was really agitated. He said to me, 'We have to do something about this. What can we do about this?' He must have known — it was clear from everything — that the game was getting much more serious. So, as early as August he knew that this could escalate into something really, really nasty. They were not playing games any more.

The FSB let it be known that it had a videotape of Pichugin's 'confession' and that it would be used as part of the prosecution's evidence at his trial. Despite repeated demands from Khodorkovsky's lawyers, however, the FSB refused to show them a copy of it. In fact, the tape was never shown in public, although extracts from the supposed transcript of it were quoted at the trial as 'evidence' of Leonid Nevzlin's involvement in the murders.

Khodorkovsky instructed his advisers to publicize the alleged use of drugs in obtaining Pichugin's evidence. A petition from friendly members of the State Duma called on the Prosecutor's Office and the FSB to respond to the drug charges. Pichugin's lawyers held a press conference at which they condemned the methods they claimed were being used against their client and called on Amnesty International to take up the case. They pointed out that the alleged testimony had been obtained from Pichugin while his defence team was not present and should therefore be ruled inadmissible in court.

When the Moscow Basmanyy Court announced that proceedings in the case would be held in camera and that defence lawyers would have to sign an undertaking not to reveal the contents of the hearings, over a hundred MPs signed a petition of protest. The Yukos arrests were becoming a very public dispute with battle lines being drawn on both sides.

The interrogation of Platon Lebedev was continuing and he was coming under increasing pressure to admit the charges against him. There were no allegations of drugs being used in Lebedev's case, but a campaign of intimidation against the Yukos lawyers defending him began shortly after his arrest. Anton Drel told me he and his colleagues were systematically bullied and harassed.

The pressure on me . . . began in July 2003 when Lebedev was arrested. I came to the Prosecutor's Office, to see Lebedev, and investigator Karimov said that it was because of people like me that things in Russia were so bad . . . because I was helping criminals. That was the start of it. Then the pressure truly began . . . They were really pushing me . . . They searched my place three times — every time without a court ruling or a warrant. That mystified me. Why are they so blatant and brazen in violating the law? The law states that a lawyer cannot be searched without a court ruling . . . But they didn't go to court one single time. It was very brazen, and because of it many lawyers got scared off. Many lawyers at that time even stopped talking to me or calling me.

The searches at Drel's office were carried out in a deliberately intimidatory fashion. More than twenty FSB officers ransacked the premises, using crowbars to force open filing cabinets and leaving the office in a shambles. Documents were strewn on the floor; hundreds of files were confiscated, along with three safes, Drel's personal computer, mobile phone and confidential personal material such as tax returns and briefing papers outlining the defence strategy in the Lebedev case. According to Drel, he was himself summoned to be interrogated by the Prosecutor's Office, in apparent breach of Russian law, which states that lawyers cannot be questioned about cases they are defending:

They called me for an interrogation. Again, theoretically, they could call me to be interrogated but *not* in the case of one of my clients. They wrote, ‘You are summoned in the case of Lebedev/Khodorkovsky’. But I wouldn’t go. I had a subpoena, but I didn’t go to the Prosecutor’s Office. It was not because I was such a brave person . . . The Legal Chamber Council [the Russian lawyers’ union] resolved that I didn’t have to go, because if I went and testified against my clients I would be in violation of professional ethics. So I had the resolution of the Legal Chamber Council. The second time, when they arrested Khodorkovsky, I was the only lawyer at that time. And so it was like, *they arrested Khodorkovsky today and what about tomorrow? Arrest his only lawyer?* In 2003 it would not have looked good; but now . . .

As the pressure mounted, Drel says he feared he would indeed be arrested. He considered giving up the case for the sake of his family:

Drel: I think that in 2003 I could very easily have packed it in and left . . . By the way, Khodorkovsky spoke to me after the first time they came to search me. He said, ‘If you’re afraid, no problem; you may leave’. Actually, I must tell you that Khodorkovsky told everyone, ‘We are at war. All those who are afraid may leave.’ That is why no one can say they didn’t know and it was news for them — everyone was warned.

Sixsmith: And you stayed. Why?

Drel: It was a challenge . . .

Eventually Drel was informed of the grounds of Lebedev’s arrest: he was being charged with fraud relating to the purchase of the Apatit Corporation, a fertilizer company in the northern region of Murmansk. Lebedev and Khodorkovsky had acquired it back in 1994 during Boris Yeltsin’s privatization programme when vouchers were issued as shareholdings in Russia’s state industries, and big corporations like Menatep would buy them up from private citizens. Menatep had got Apatit at a reduced price because they had pledged to make substantial investments in the plant to restore it to profitability.

When he heard what he was being charged with, Lebedev was incredulous. The charges seemed nonsensical. He acknowledged that Menatep had not invested the full amount specified in the contract to buy Apatit — they were some \$200 million short of the required sum — but they had invested time, expertise and materials, and the proof was that the plant had become highly profitable. Compared to some of the other things that went on in 1990s Russia, Menatep’s failure to invest in Apatit seemed at most a technical breach of an undertaking that was honoured in other ways. Indeed, Apatit’s suit against Menatep had been settled to both parties’ satisfaction in a civil court just a couple of months earlier. Lebedev appeared to have been arrested for an alleged crime for which the supposed victim had been compensated and was no longer interested in pursuing.

The authorities, though, were determined to exploit the Apatit case and on 3 July the Kremlin instructed the State Prosecutor to haul in Khodorkovsky himself for questioning. It was the first time he had been personally implicated in any of the burgeoning charges against Yukos and Menatep and he did not take it well. He rang his Kremlin contacts — Mikhail Kasyanov and Alexander Voloshin — who promised to intercede on his behalf. Kasyanov at least seems to have kept his word. An indication of the Prime Minister's good faith is that he was prepared to put his own reputation on the line by defending the Yukos men in public. On 8 July, he gave a press conference in the Siberian city of Yakutsk where he denounced Lebedev's detention as 'excessive':

It isn't right to arrest someone for economic-related crimes. There are enough crimes committed that actually threaten people's lives and to which such measures should be applied. The charges need to be thoroughly investigated, but I consider the arrest [of Lebedev] to be an excessive measure.

Kasyanov's deputy, Viktor Khristenko, was also supportive, expressing his hope 'that the legal situation will be clarified as soon as possible so that damage is not inflicted on the economy'. Putin's chief economic adviser, Andrei Illarionov, was active in pleading the pro-business cause. And an unidentified government source was reported by several newspapers as saying 'the sensible part of the presidential administration and the government believes that the laudable struggle against corruption should not inflict damage on the Russian economy. Regardless of whether they eventually prove Lebedev's guilt, the negative consequences of what is happening now are already obvious.'

The schism in the Kremlin could hardly be more clearly stated. On the one hand, liberals like Prime Minister Kasyanov were backing big business and enterprise, a free-market economy and good relations with the West; on the other, hardline Siloviki like Igor Sechin and Viktor Ivanov were attempting to destroy all that and return Russia to a centralized statist model where strategic industries were controlled by the government and used to challenge the West rather than cosy up to it. The Yukos arrests had brought into the open a bubbling power struggle for the future direction of Russian politics: the eventual winners would determine not only the fate of Lebedev and Khodorkovsky, not only the fate of the country's business model, but the future of democracy in Russia.

The significance of the Yukos case was underlined in mid-July by the fierce debate it sparked over the legitimacy of Boris Yeltsin's privatization programme. For every Russian who supported the de-Communization of the country's economy in the 1990s, there appeared to be many others who bitterly resented the sell-off of 'the people's wealth' to a bunch of allegedly crooked — and undoubtedly Jewish — tycoons.

Perhaps not surprisingly, the Yukos arrests were getting a generally favourable reception from the public and the media, and the Siloviki seized the moment.

A rash of stories appeared in the national media suggesting the time had come to humble the oligarchs and take back their ill-gotten gains. For a time in the middle of 2003, it looked as if not only Yukos was going to be re-nationalized but along with it the whole of the massive Soviet industrial machine that had been transferred to the private sector in the Yeltsin years.

It was a critical moment for Russia. The liberals feared the gains they had made since the collapse of the USSR were about to be undone by the new statist who were vying for pre-eminence in the Kremlin. Mikhail Kasyanov was forced into a series of increasingly emphatic interventions to try to curb the rise of the hardline Siloviki. On 17 July he called a special session of the cabinet to argue that the privatization process could not and would not be reversed, whatever the Siloviki might say. In a speech designed to tackle the growing rift between business and the Kremlin, he told his ministers:

Today, we can see the clear advantages of private enterprise and private ownership. Of course we believe and always have believed that the results of previous years' privatizations are irreversible. Our main current and past aim is clearly to improve the quality and transparency of decision-making in privatizations.

His choice of words was a deliberate one. Vladimir Putin, when he came to power in 2000, had himself said 'the results of privatization are irreversible' and Kasyanov was reminding the President of his own previously stated position. With Putin looking like he was falling under the influence of the Siloviki and moving towards their preference for re-nationalization, Kasyanov and his fellow liberals were struggling to stem the tide. The head of Russia's main grouping of industrialists, Arkady Volsky, presented Putin with an open letter outlining the concerns of business. After meeting the President, Volsky emerged to report that he believed tensions were easing:

I think the first step has been taken to smooth the tension between the law-enforcement bodies and the country's biggest companies. We need energy and patience and a willingness from all sides to find an appropriate way out of this complex situation. The situation is not only about individuals and organizations, but about *the whole rules of the game* . . . the rules have got to be confirmed if we're going to find a way out of the current problems.

But supporters of the Siloviki hit back. Kasyanov's remarks about the inviolability of the privatization process were contradicted by First Deputy Property Minister Alexander Braverman in a televised statement. Referring to the Lebedev case, Braverman said he could not rule out a 'legal re-examination of certain privatization practices'. And the Economy Minister, German Gref, acknowledged in press interviews that the ten-year statute of limitations for challenges to individual privatization transactions had not yet expired for most major companies. At a news conference in mid-July, a spokesman for the

Russian Prosecutor's Office publicly attacked Kasyanov by name, saying that the Prime Minister's criticism of Lebedev's gaoling represented an unwarranted attempt 'to pressure the courts'.

As the liberals and the Siloviki were battling out their differences in a very public display of mud-slinging, Putin himself was keeping safely out of the fray. He was on a state visit to London (ironically aimed at promoting Russia as a safe area for investment) and able to deny all knowledge of — and therefore all responsibility for — the attack on Yukos.

It was a hand-washing technique he had used in the past, most notably when the oligarch Vladimir Gusinsky was hounded out of Russia. The largely independent newspaper *Novaya Gazeta* commented that while the President was keeping his options open, he was nonetheless falling under the influence of the former KGB men who were now the Kremlin Siloviki. Referring to the Siloviki as 'KGB Inc.', the newspaper said they were imbued with the security services' traditional mistrust of elements within Russian society that appear to be sources of foreign influence. Khodorkovsky's Western-friendly beliefs were viewed as particularly threatening by the conservatives of KGB Inc. By weakening or taking over Khodorkovsky's empire, they would be combating Western influence as well as securing for themselves positions of great power and wealth.

With accusations and counter-accusations flying, the growing uncertainty over the future of private enterprise in Russia was having a distinctly negative effect on business confidence. The value of Yukos shares dropped by more than 7 per cent when it was announced that the authorities had ordered a new probe into the company's tax affairs. In the face of the growing onslaught, Khodorkovsky remained remarkably confident. One of his close advisers in the US, Margery Kraus, told me he wavered only once:

Kraus: Khodorkovsky was in Washington for something else and he asked to have a private meeting — he never did that. Usually, it was never 'meet me in a bar somewhere'. And he wanted me to come alone. He did express some concern at that point.

He wanted us to know there could be trouble on the horizon. I asked him questions about why he felt this way and he expressed concern that the FSB was taking over greater control in the Kremlin; that there was a fight going on between the forces that be, and he thought that might mean trouble for him.

He indicated himself to be, I do not want to say protected, I do not remember the words he used, but that he had paid up all his taxes and that he —

Sixsmith: He had paid all the taxes they had asked him for at that time?

Kraus: Yes. And then they came back at the end and they wanted to double it, and he said that he would not be coerced that way.

Sixsmith: So he was resolute even at that early stage?

Kraus: Yes, resolute. My impression from that and from what you asked about why he took on the Kremlin — I think he thought that it was time for the country to move on, for it to be ‘operating like other countries’ and not be giving bribes and dealing with this corruption factor. That was at least his stated motivation.

The country’s stockmarkets were taking a battering over the Yukos row — \$20 billion was wiped off share values in the space of two weeks — and Khodorkovsky was volubly predicting that foreign investors would stop investing in Russia and withdraw their existing investments unless the issue was settled.

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A Kremlin double-cross?

On the evening of Thursday 3 July 2003, Mikhail Khodorkovsky emerged visibly shaken from his questioning by the State Prosecutor. He did his best to keep up a pretence of business as normal. The Yukos–Sibneft merger would continue as planned, he said, and there was no question of him or Lebedev admitting any wrongdoing. Khodorkovsky said Lebedev’s arrest was illegal and he himself had nothing to fear: ‘I do not plan to leave Russia. I should have travelled to London today, but I decided to stay right here.’

He was steadfast in his refusal to contemplate exile: ‘I am not hiding and I don’t plan to become a political émigré. If it’s a choice of forcing me out of the country or putting me in gaol, then they’ll have to put me in gaol . . .’

Given the mounting evidence that he was no longer safe in Russia, it is a legitimate question to ask exactly why Khodorkovsky did not heed the signs and flee abroad, just as Berezovsky, Gusinsky and other oligarchs had already done. He was painfully aware that the net was closing around him and that he had a limited amount of time in which to secure his future.

Khodorkovsky’s behaviour in his remaining three months of liberty, trying to shore up his position with both the Kremlin and his allies in the West, suggests he may have had a false sense of safety . . . and that at least some of those he was counting on may have deliberately double-crossed him.

The day after his interrogation, and two days after Platon Lebedev was arrested, Mikhail Khodorkovsky was due to attend the annual Fourth of July Independence Day celebrations at the American Embassy in Moscow. There was some discussion among Yukos managers about whether or not he should go: such closeness to the Americans, whose interest in buying into Yukos was at least the partial cause of the unfolding crisis, had obvious potential to inflame yet further their already strained relations with the Kremlin.

But Khodorkovsky went.

The Fourth of July fell in the middle of a splendid Moscow summer that year and the US Embassy opened up the private garden of the Ambassador’s residence, Spaso House, for the evening. As he arrived, Khodorkovsky made a point of acknowledging the cameras outside and the journalists inside. He evidently wanted his presence to be noted. In conversation with the ambassador, Sandy Vershbow, Khodorkovsky loudly and openly brought up the subject of Lebedev’s ‘mistreatment’ by the Russian authorities. Vershbow was a supporter of Khodorkovsky and, as a sympathizer of the neo-conservatives in American politics, he had the ear of President George W. Bush. Vershbow duly obliged with a protest to Putin about the Lebedev arrest.

But Khodorkovsky needed public action as well. He seems to have decided

on a campaign to associate himself as prominently as possible with those leading figures in the West who had been sympathetic to his cause in the past, and whose support he desperately needed now. It was as if he thought he could buy himself protection by being seen with them.

Shortly after the reception at the American Embassy, Khodorkovsky flew to the US for a gala meeting hosted by Wall Street personality Herb Allen, where he was photographed laughing and joking with fellow billionaires Warren Buffett and Bill Gates, as well as New York mayor Michael Bloomberg. From there he went to attend the Sun Valley, Idaho, business convention as the guest of former Democratic Presidential candidate Bill Bradley. And finally he flew to Washington, where he held well-publicized meetings with Representative Tom Lantos of California, Energy Secretary Spencer Abraham and other Bush Administration officials. He seemed to be saying to the Kremlin, 'Look at the friends I've got! *Now* see if you can arrest me!'

At the same time as courting his allies abroad, Khodorkovsky was looking over his shoulder at home. In the weeks following Lebedev's arrest, he was almost constantly in touch with the men he considered his allies in the Kremlin. As we have seen, the Prime Minister Mikhail Kasyanov was bravely and publicly intervening on his behalf. But the contact Khodorkovsky prized most highly was Alexander Voloshin. As head of the Presidential Administration, Voloshin had daily access to Putin: he knew all the meetings the President attended; he saw all the briefing notes and conclusions from the meetings; and he was privy to his boss's innermost thoughts.

Khodorkovsky trusted Alexander Voloshin implicitly — he had been a loyal servant to Boris Yeltsin and had seemingly proved his credentials as a liberal reformer. Tall, balding and bearded, Voloshin had the air of a latter day Romanov tsar. He had been a consistent supporter of the free-market enterprise economy Khodorkovsky had come to represent. So when Voloshin reported that the President had no intentions of re-nationalizing Yukos and no intentions of pursuing its boss, Khodorkovsky believed him absolutely. In return, he agreed to keep Voloshin informed about his own plans, in particular regarding the mooted deal to sell off part of Yukos to the Americans.

The line Voloshin was spinning to Khodorkovsky was that the moves against Pichugin and Lebedev were merely political theatre, aimed at impressing popular opinion with the President's determination to 'go after' the hated oligarchs and clear out corruption in the run-up to December's parliamentary elections: they were a slap on the wrist, a message that Khodorkovsky should go easy on financing opposition parties. Voloshin seemed to be reassuring him that Putin would never declare war on Khodorkovsky, the richest man in Russia, with his high-level ties to leading political and financial circles in Britain and the US. To put it crudely, he was telling Khodorkovsky what he wanted to hear.

But several players in the drama of 2003 have told me they were suspicious of Voloshin's role. They point to the uncanny prescience with which the Kremlin Siloviki were able to anticipate the unfolding of Khodorkovsky's business plans

and the ease with which they led him into the trap that culminated in his arrest in October. They suggest Voloshin's task was in fact to act as a double agent, gathering information on Khodorkovsky's intentions and misleading him over those of the Kremlin. Leonid Nevzlin is particularly scathing:

Nevzlin: I think Khodorkovsky underestimated who he was dealing with. Putin, Sechin and in fact Abramovich, too, and Voloshin . . .

Sixsmith: But I thought Voloshin was supposed to be his supporter . . .

Nevzlin: I think Voloshin merely pretended to support him. I don't think there is much secret about what he was really doing . . .

Sixsmith: But when Khodorkovsky was arrested, Voloshin tendered his resignation.

Nevzlin: OK. Let's assume he was going to resign anyway. Let's assume he had agreed it all with Putin. Then we can see he just timed it to coincide [with Khodorkovsky's arrest]. The one whose position I trust much more is Kasyanov. I have great respect for him. To the depths of his soul he seems to me to be a very decent person. But Voloshin . . . I don't trust him at all! Both Voloshin and Surkov were in almost daily contact with Khodorkovsky right up to the end. I think they played a deliberate role to make him believe he wouldn't be arrested. I think they had a definite goal. I think they very much disliked him and lured him into it. But Khodorkovsky was convinced that if he was associating so openly with people [in the West] then there could be no threat to him.

Sixsmith: So they deliberately misled him?

Nevzlin: I believe so . . . I think there was already a consensus on putting him in prison and taking over Yukos.

Alexander Temerko, the long-time friend of Mikhail Khodorkovsky and a Yukos executive since 1999, confirms that Voloshin had promised to warn Khodorkovsky about any impending danger. He says Voloshin failed to keep his promise, but he is less willing than Nevzlin to speculate on his motives:

Temerko: I had a private conversation with Alexander Voloshin . . . I guess I can tell you about it: Voloshin promised that he would warn him [Khodorkovsky] two weeks ahead of time if something was beginning to develop with regard to his arrest. But he never did warn him about anything at all.

When we found out Khodorkovsky had been arrested, Trushin — one of my colleagues from the company — went to see Voloshin. Voloshin told him that Ustinov, the Prosecutor General, had recently been meeting with the President three or four times a day. That was very unusual. Voloshin said he had suspected they may be discussing Khodorkovsky's arrest. But he was telling us this when it was already too late,

when we already knew about the arrest! He acted honourably when he resigned from his post.

Sixsmith: So, you think that he acted honestly?

Temerko: I had no deal with him. Mikhail had a deal with him [to warn him in advance about moves against Yukos]. I personally would never make a deal with such a person; but Mikhail thought that he could make a deal with him.

Interestingly, Khodorkovsky had hired an American PR company, APCO, to help with the campaign to boost his profile in the West in the difficult days of 2003. Some of APCO's senior executives who worked on the account say they felt he was relying too trustingly on the assurances he was getting from Alexander Voloshin. They tried to warn him there might be some double games being played:

APCO executive: There are a couple of things I want to tell you, but to answer that question, apparently Voloshin was telling him, 'You are going to be OK'.

Sixsmith: Did Khodorkovsky say to you, 'Voloshin has told me I am OK?' Did he say that?

APCO executive: He just said he was 'taken care of' . . . There was a suggestion that we tried to take to him that maybe Voloshin was not giving him the straight story, one way or the other, but that paper was ripped up before it ever got to him. I don't know whether it got to him or not. And in talking to some people who knew, as they asked around through their networks and sources . . . I think fairly reliable people told us that they thought Voloshin was involved. We had reason to believe that. We were trying to figure out who was responsible and I think the idea that Voloshin was involved is something that was raised at that point . . . which was scoffed at by Khodorkovsky's people.

The APCO executives enlisted the help of the foreign policy specialist and Russian government adviser Sergei Markov to try to convince Khodorkovsky. They drew up a presentation explaining why he should not trust the assurances he was getting that he was safe from attack. Instead, they suggested, he should do everything possible to sue for peace while he still had the chance:

APCO executive: Sergei [Markov] was an old friend of mine and I asked him at that time what he thought Khodorkovsky should do if he wanted to avoid what seemed to be about to happen — confrontation, which could lead to his arrest. Sergei put together a two-page list of things, basically suggesting that if Khodorkovsky wanted to avoid further trouble he should essentially apologize publicly and do a series of things, which . . . of course these ideas were so radical and so outside of what anybody was

thinking at that time. Khodorkovsky obviously knew that he was at war. He knew that by arresting Lebedev, they had declared war. But the fighting had not really started yet. So it was a question of whether you could avoid further conflict . . . But at that point it just was not what was acceptable to his mind.

Second APCO executive: Yes. If Khodorkovsky thought we were proposing that Voloshin, for example, might not be trustworthy —

APCO executive: Although we sat in this conference room and we mentioned that to him.

Second APCO executive: Well, we tried to . . . It was in August. August or September 2003.

Khodorkovsky himself has said little about the advice he received from his Kremlin contacts, but in a letter written much later from prison he seems to acknowledge that he may well have been deceived by at least one of them:

I am myself a straight sort of person — you may find this hard to accept — and in general I do what I say and I say what I do. Psychologically I expect other people to act in the same way. I understand of course that this is not always the case, but by nature I do not expect people to say one thing and then do exactly the opposite. Rationally I know there are deceitful people, but I still continue to trust them — I can't help it. Usually, Leonid [Nevzlin] would put me right, but on this occasion he obviously slipped up.

In July 2003, Khodorkovsky was aware that the face-off between the liberals and the Siloviki in the Kremlin meant there was only one person who could give him a definitive explanation of the fate that awaited him. When the magazine *BusinessWeek* asked him how he thought he could get out of his difficult position, he answered, 'The only place I can go to complain is the President. I have asked for permission for a meeting, but we haven't met yet . . .'

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Exile or gaol

Putin did not respond to Khodorkovsky's request for a meeting. Wheels were now turning behind the scenes and the President was patently giving him the cold shoulder. In light of his deliberate withdrawal from the public battleground over Yukos, it is impossible to be absolutely certain about Putin's precise role in what happened next. Was he the driving force behind the campaign of intimidation that was about to ensue? Or was he trying to restrain the rapacious Siloviki?

According to one former Kremlin insider, Putin at this point handed over responsibility for Yukos to his right-hand man Igor Sechin and told him to take whatever action he deemed necessary. The President could distance himself from the ferocious onslaught on Khodorkovsky. He could comment on it — and sometimes even deplore it — as if he were a disinterested observer, rather than the man responsible for it.

Under the direction of Igor Sechin, a Silovik and proponent of the supremacy of the state, pressure on Yukos increased dramatically. Lebedev's plea for bail was turned down and he was remanded in custody. New charges were unveiled against Alexei Pichugin. On 11 July 2003, a detachment of armed and masked security police turned up at Yukos headquarters and raided the company's records. Files and computers were confiscated on the order of the Prosecutor's Office. An official investigation was opened into the company's tax affairs.

Since the Prosecutor General Vladimir Ustinov was in regular personal contact with Putin, it is reasonable to conclude that the President initiated — or at least approved — the raid. In public, though, Putin affected a tone of high-minded innocence about it: 'I am, of course, opposed to arm-twisting and believe this is no way to resolve the issue of economic crimes,' he told *Forbes Magazine*.

At the end of July, the Prosecutor's Office confirmed that eight senior Yukos employees were now under investigation. It said it was widening its tax probe and had evidence of five murders committed by the company. Alexander Temerko was given the task of trying to negotiate with the authorities. Temerko was himself a former senior government official, so he knew many of the Kremlin figures involved. Five years on, in 2008, he told me he was certain the driving force behind the persecution of Khodorkovsky was Igor Sechin:

Undoubtedly, Sechin was that torpedo that Putin launched. Putin had to have this political competitor removed, and that was it. He gave the management of it to Sechin . . .

But Temerko says the Siloviki had a problem. The destruction of Yukos may

have suited their aim of bringing Russia's strategic assets back under state control, but it was causing unwelcome fallout. The spectacle of the country's private industry being subjected to what looked like arbitrary seizure by the state was having a disastrous impact on business confidence in Russia and abroad.

The Siloviki's rivals were warning of dire consequences. Prime Minister Kasyanov announced that the Yukos affair was producing 'an adverse effect on the country's image and a negative impact on the mood of investors.' According to Temerko, the authorities were forced into a complex game of cat and mouse, first attacking Yukos and then having to backtrack and try to reassure them that there was nothing to worry about. In response to Kasyanov's warning, the Kremlin insider Gleb Pavlovsky announced that President Putin had nothing to do with the Yukos affair and that there were unlikely to be any serious consequences for the company. Yukos, he said, was 'legally well protected' . . .

For Temerko, the conflicting and misleading signals from the authorities made his job as negotiator almost impossible. He was trying to broker a compromise with a government that had no interest in compromising. Sitting in his office in London, where he has been in exile since 2004, he nowadays appears the model of a successful businessman. A genial Ukrainian with a striking resemblance to Nikolai Gogol and the lilting tones of their common motherland, Temerko remains genuinely aggrieved at the way he was treated by his former colleagues in the Kremlin:

Honestly, it is only now that I fully realize that I was under some kind of an illusion then. I was thinking that in that illusion it seemed possible to reach an agreement with them [the Kremlin], while in fact it was an impossible thing to do. The special services and the law enforcement agencies, they are very shrewd and cunning in how they work. You meet with them and in the meantime the machine keeps grinding and rolling forwards. I was obviously a rather naïve person. You are in a situation where you are trying to help people that are in prison, and the massive state machine is actually engaged in working against you . . .

Temerko says the Kremlin played a double game throughout the Yukos affair, toying with him and his colleagues to keep them in constant uncertainty while moving all the while to their ultimate goal.

On 6 August, the FSB raided a series of offices belonging to Yukos, including its IT subcontractor, in the hope of seizing documents on the company's internal electronic server. In contravention of Russian law, no Yukos lawyers were allowed to be present during the search.

The following month, the Prosecutor's Office sent armed police to raid the boarding school for orphans that Yukos had set up outside Moscow. Khodorkovsky's parents who run the orphanage say the children were terrified when the police arrived and began impounding their laptops. Marina Filippovna, his mother, recalls, 'Armed men in masks were breaking into the grounds of the school. I thought they must be terrorists. I ran to protect the

children.' Boris Moiseevich, Khodorkovsky's father, says, 'They came and ripped out the IT system we use for teaching the children. The children saw it all. How can we teach them about patriotism and respect for the law now that they've seen the way representatives of the law operate?' The Kremlin later claimed Khodorkovsky might have been using the orphanage as a cover for his illegal operations and that the computers might contain incriminating documents.

At a news conference four days later, he responded to the accusation with scorn:

This time our respected prosecutors have gone too far. I never had a high opinion of their . . . readiness to follow the law, but even *I* did not expect this of them. This was not just a raid, but a raid conducted with a show of force, with machine guns and with all the theatricals we see in Moscow — in a place where 120 children live and study!

Why would we keep something [secret information] in an old computer that we have donated to children? This makes no sense. We understand this very well and so do the prosecutors. There was no need for this raid. It was a clear attempt to intimidate. But I don't understand why they needed to do this through children . . . If they want me to go into exile, I'm not going to. If they want to put me in prison, then under the current circumstances, be my guest — go ahead!

Perhaps alarmed by the negative publicity surrounding the searches, Putin again went into emollient mode. In a reassuring statement, he indicated that the operation against Yukos was based solely on charges of individual corruption, that it was a unique case and that it should not be seen as a precedent for other de-nationalized state companies: 'the results of the privatization programme', he said, 'will not be revisited'.

But, ever Jekyll and Hyde, the Kremlin's next step was to order the forcible search of the offices of Anton Drel, Lebedev's defence lawyer, in contravention of Russian law. Drel says the search was 'a precedent-setting event, because this was the first time in the history of Russia or the Soviet Union that the state has ever raided the offices of a lawyer working on a criminal case'.

By early October 2003, it looked extremely likely that the culmination of the unfolding events would be the arrest of Khodorkovsky himself. The Russian media were openly speculating about when it would happen. Many of his friends and colleagues warned him it was time to get out of Russia. Irina Yasina, the head of his Open Russia Foundation, says she asked him, 'Don't you think they'll lock you up?' and he replied, 'They won't lock me up. They're not enemies of their own country.' When Boris Nemtsov, the former Prime Minister, asked him, 'Aren't you afraid of gaol?' Khodorkovsky replied, 'And aren't you afraid of dying?' His fellow oligarch Mikhail Fridman, who made his money from the BP-TNK oil merger, told the *Washington Post* that he, too, had warned Khodorkovsky:

I told him 'it's dangerous for you and it's dangerous for the country. At the end of the

day, Putin will react decisively'. And it happened. Khodorkovsky said he was ready to go to prison. But I told him, 'it's dangerous for us, not only for you. And you are *not* ready . . .'

The way Khodorkovsky reacted to the deluge of warnings he was receiving about the imminent threat to his personal safety reveals a lot about his personality. He was an immensely powerful man, locked in a very public conflict with forces that could crush him in an instant. He had much to lose in terms of material wealth, reputation and his family. He undoubtedly had the chance to escape from the looming consequences that looked increasingly disastrous for him, and yet *he deliberately chose not to*.

To try to understand what was going through his mind as this Shakespearian drama unfolded, I spoke to Khodorkovsky's closest friends and colleagues. To a man, all of them said they had seen the writing on the wall.

Mikhail Brudno told me everyone had urged him to go abroad, because that was the only way he could remain free to keep up the fight for the company and the men who were in gaol. But according to Brudno, Khodorkovsky took a conscious decision not to do so:

We all knew Khodorkovsky was working on ways to get Lebedev released. I don't know what exactly it was that he was doing, but it is clear he was doing it the wrong way. We all thought he should leave the country in order to be able to somehow help Lebedev. If he had gone, they maybe would have left him alone, and then maybe they would have left Lebedev alone. That is what I think. [Abroad] he would no longer be dangerous as a political opponent. So if he had left the country then, they would have had no need or reason to keep Lebedev in prison.

Anton Drel, who had been told by Khodorkovsky that he could resign if he was worried about the dangers of being associated with him, says the Yukos boss underestimated the danger he himself was in:

Drel: Nobody [in the Kremlin] said to me 'he needs to leave', but it was obvious to everyone — to me, to all those who watched TV or read newspapers. I told him, 'You have to leave otherwise they will arrest you'. He said he calculated that the chances of his arrest were 80 per cent . . . from 70 to 80 per cent.

Sixsmith: He told you that in as many words?

Drel: Yes, he did.

Sixsmith: And you personally, do you understand why he didn't leave?

Drel: I have my own explanation, though it doesn't mean it is the right one. It is what I think now. I think that he had — you will find it funny now — but I do think he had . . . illusions of justice.

He believed that even if he was arrested and put into gaol for some time, that those accusations against Lebedev were so ridiculous, so unbelievable, that he thought that in any court, no matter what kind of court it was, well . . .

Sixsmith: That he'd be inside for two or three days, and that he'd be able to defend himself?

Drel: Well, he never really believed it was going to be two or three days . . . he never actually said two or three days. He never even spoke of two or three months. I personally think that he realized it could last a year or a year and a half. I think . . . well, that is what I think.

Sixsmith: And that it would be worth it to have the chance to defend himself in front of the court?

Drel: Yes, yes, absolutely.

Khodorkovsky's stubborn belief that he was an innocent man and that he could prove his innocence in a court of law is something several people have mentioned to me. It has been advanced by his supporters as evidence of his good faith and personal saintliness . . . but I am not convinced.

It seems improbably naïve to expect to be given a fair hearing in a Russian court, especially having seen the way his colleagues in gaol were being treated. I put the point to Mikhail Brudno, who conceded there may have been other considerations involved:

Brudno: I think he just could not picture himself living abroad. It would have put an end to his political ambitions. He just could not see what he could do then . . . and who he would be then. First, it would have been the end of his career. Second, he did not feel comfortable when he was abroad. And, third, he was not prepared — he could not have imagined that the people in authority would act against the law, that they would break the law. If they had acted within the framework of the law, the worst they would have been able to do would be to threaten him, or maybe send him to prison for a couple of days. Gusinsky was imprisoned for that sort of time, remember? But, other than that . . .

Sixsmith: So he was sure they would not send him for a long time in prison . . . ?

Brudno: Yes, he was. He was sure he would be able to defend himself in court because he knew there was nothing that they could accuse him of. He did not think his sins were so heavy as to give them reason enough to have him hanged.

He had no idea that the people in authority would go against the law. He believed that the time when the people in authority would go as far as to break the law was behind us. And it turns out, no, such times are not behind us yet. The people in

authority violate the law with impunity, breaking one law after another. There are no laws in that country that the people in authority have not yet broken trying to hound Khodorkovsky down.

Sixsmith: But I think there was also an element of some arrogance in him, in his desire to stay in the country and fight Putin. Or was it naïvety, do you think?

Burdno: He was not a naïve person. It was just that he could not even imagine that they would start breaking the law . . . and therefore they would not be able to persecute him so. And in that there is some degree of naïvety, isn't there? To believe that the people in authority would act in compliance with the law. If that is naïvety, then he was naïve.

There is a general consensus among those who were with him at the time that Khodorkovsky did not expect his punishment for staying in Russia to be as draconian as it turned out.

But that is not to say he would necessarily have fled even if he *had* known. It seems to me that Khodorkovsky was determined to see things through, whatever price he had to pay: there was too much at stake for him to cut and run.

In one of our conversations in Tel Aviv, Leonid Nevzlin suggested Khodorkovsky may have been playing for his political future. If he believed he was playing a role in a high-level power struggle between the liberals and the Siloviki in the Kremlin, a well-publicized and controversial court appearance could be a platform for his own political beliefs. It was a risky strategy but the rewards could have been great:

Sixsmith: So when he found out Putin was angry with him, he was warned he had to leave?

Nevzlin: Everybody told him.

Sixsmith: Everybody?

Nevzlin: All sensible people told him.

Sixsmith: But he didn't leave — why not?

Nevzlin: No. And it's still a mystery to me. The view I read recently in an interview with his mother doesn't ring true at all. Her explanation is that if he'd left the country, he would have been called a thief and wouldn't have been able to look his children in the eye and so forth.

I don't find this convincing. It could only be true in one circumstance — if there were justice in Russia. Then if someone left he'd be fleeing from justice. But as we know, this is far from the case. It's an explanation that's fine for internal consumption, for his image in Russia perhaps.

The truth is that he knew the Prosecutor's Office were out to get him, that there

would be a court case. But before him there'd never been a case of that magnitude, where someone was put in prison and never let out again.

In other words, he may have assumed that he would be charged, there would be a public trial and he could defend himself. That's something quite different. But he was wrong. They acted very harshly — they put him straight in prison and didn't give him any public platform. They made him guilty from day one, so there was no chance for him to give his views . . . I don't think he was prepared for that. He thought they would only hold him for a few days; then he would prepare for a trial where he would prove he had always acted correctly and honestly. But no one intended to give him a platform.

I don't think he fully understood that he was no longer living in the country Russia might once have been — he was living in the one it had become.

The argument that Khodorkovsky 'forgot the country he was living in' has been voiced repeatedly to me. The implication is that he had been associating so much with people in the West and had so imbibed Western values that he forgot Russia was still an authoritarian country that didn't respect the rule of law. I find such an explanation unlikely. Khodorkovsky was a sophisticated, intelligent man, well aware of the realities of the society he lived in. But for all his intelligence — or perhaps because of it — he suffered from a flaw that affects many powerful people: he was blind to his own mortality. So titanic had his struggle with the Kremlin been, so personal had his stand-off with Putin become, that his whole existence had been subsumed in one obsessive quest. Like a man caught in a bar room brawl, *he could not back away from it*. It was as if his entire sense of self depended on seeing the thing through to its end.

I have already said that Khodorkovsky's behaviour in his last few months of liberty seemed calculated deliberately to taunt and infuriate his opponents. His rational mind may have told him he could never win in a showdown with the Kremlin, but a lifetime of success had imbued him with a visceral unwillingness to be second best to anyone. He could have left the battlefield with billions of dollars and the guarantee of luxury for life. But so all-consuming was the battle he had embarked on that he chose not to. If he didn't face down Putin, he was no one. Obsessive determination had made him rich; now it made him fight.

There was messianic self-belief in his make-up. He could not go abroad because his destiny was to build the future of Russia. But somewhere in his mind there also lurked the very Russian figure of the Righteous Martyr. I don't know how consciously Khodorkovsky ever contemplated the prospect of a lifetime in gaol, but I am convinced he was, on some level, willing to accept it.

The unshakeable belief that *he* is right and the rest of the world is wrong seems to have made him regard himself as a *muchenik*, a sufferer for the truth. So much has he invested in being right, so much has he made himself, his friends and his family suffer for his convictions, that he can no longer admit even the possibility of being wrong.

In his writings from prison, Khodorkovsky has adopted the tone of a Tolstoyan martyr, a wronged prophet who will show Russia the way back to

the true path. Through his suffering, Russia will be redeemed . . . It is a difficult concept for Westerners to comprehend, but for Russians the path of 'salvation through blood' is very recognizable.

Exactly what Khodorkovsky believes his 'martyrdom' will lead to is hard to quantify. At the most tangible, he may nurse the unrealistic dream of emerging from his prison sufferings to be acclaimed as Russia's messiah; of gaining the moral authority to carry out his master plan; of being swept into the Kremlin as President. At the most personal, he may view it as an ordeal he has to undergo for the spiritual vindication his soul demands.

Khodorkovsky has himself never definitively answered the question of why he spurned the chance to save himself by fleeing abroad. The closest he came is in a letter from gaol where he writes, 'I could have foreseen things. When I understood things, it was already late. I had the choice of going on my knees or going to gaol. And maybe I could have gone on my knees. The temptation was very great . . .'

It could be a quotation from the Grand Inquisitor in Dostoevsky's *Brothers Karamazov*!

Americans in town

The final miles on Khodorkovsky's road to Siberia were taken at a frenetic pace. He was running a race against time to complete his master plan for Yukos before the Kremlin's net closed over him. And, as we will see, he harboured the residual hope that if he could 'just complete the deal' it might give him the immunity he craved to keep him safe from arrest.

As early as April 2003, Khodorkovsky had sought Putin's blessing for the merger of Yukos with Roman Abramovich's Sibneft. The President had raised no objection to the deal, which would create the world's fourth largest oil firm and, importantly, keep it in Russian hands. But Khodorkovsky's plans involved a much bolder, more contentious second step: in order to make Yukos–Sibneft a genuinely global player in the premier division, he was going to team it up with one of the American giants.

Speaking to those Yukos executives still at liberty, it is unclear to me exactly what end result Khodorkovsky wanted from this. His official line was that he wanted to grow the business and make it a Russian champion in the same way that BP, Total or ExxonMobil were champions for Britain, France and the US. Under this scenario, Yukos would cede a minority stake in its operations to an American partner and in return would get Western investment, technology and expertise — a proposal that could, possibly, win Kremlin approval. The BP–TNK venture, a similar link-up with a Western firm, had got the go-ahead just the previous year and President Putin had raised no immediate objections when Khodorkovsky broached the possibility of a similar deal for Yukos–Sibneft at their April meeting.

There was another scenario on the table, though.

Under this version, Yukos would sell a *majority* stake to the Americans and hand over the running of the company to them. This was a more problematical option for several reasons. For a start, the negotiations were happening against a background of the US-led invasion of Iraq. With Putin convinced that Washington's motivation was the search for control over the world's oil, it was hardly a propitious moment for Khodorkovsky to ask him voluntarily to hand over Russia's own supplies. With TNK already linked to BP, the 'loss' of Yukos would leave nearly all the strategic Eastern Siberia reserves in companies tightly connected to Anglo-American financial interests (it did not escape the attention of the Kremlin that Group Menatep Ltd, Khodorkovsky's holding company, was already registered in Gibraltar).

In addition, the received wisdom — rightly or wrongly — was that Khodorkovsky was planning to retire from business in order to mount a bid for the presidency. In his usual provocative way, he had himself dropped several

hints about this. So the Kremlin had another reason to be wary of any proposal to sell off Yukos.

When Khodorkovsky first broached the possibility of selling a stake in Yukos–Sibneft to the American oil companies, he found a very willing audience. The about-to-be-merged Russian companies controlled the second largest hydrocarbon reserves in the world, less than ExxonMobil but more than BP, ChevronTexaco or Total. It would be the biggest business enterprise in Russia by a long chalk, bigger even than the state monopoly Gazprom. Prime Minister Mikhail Kasyanov called it a ‘flagship for the Russian economy’.

But Khodorkovsky had a problem.

However large and juicy a target the company may have seemed in April, the moves against Yukos by the Russian authorities were beginning to make it much less attractive by the end of July. With every arrest, every raid and every tax investigation it was getting harder for Khodorkovsky to keep the American deal moving forward. And in a grotesque dance of seemingly coordinated steps, every time the negotiations advanced, the Kremlin would raise another obstacle that would set them back again. It was as if Putin and Sechin were receiving advance information on what Khodorkovsky was about to do, the source of which — as we have seen — has given rise to much speculation.

For Khodorkovsky, the stakes were so high that he had no choice but to persevere.

He knew he was in a race to complete the deal before Yukos’s growing legal problems would make it impossible. So, like all good negotiators, he opened talks with two potential buyers. He was negotiating scenario one — selling only a minority stake in the company — with ChevronTexaco. But at the same time he was negotiating the much more radical scenario two — selling off a controlling majority stake — with ExxonMobil.

I have heard conflicting accounts of which option Khodorkovsky really favoured. Several Yukos people have told me he was actually set on selling only a minority stake (to ChevronTexaco), largely because he understood the Kremlin would never go along with anything more. They maintain he was only talking to ExxonMobil as a negotiating ploy, to push ChevronTexaco to act quickly and pay more.

But other, equally well-placed sources have told me Khodorkovsky desperately wanted to sell the whole company (to ExxonMobil), realize his massive profits and go into politics.

The truth is hard to establish, and it seems the Kremlin was equally in the dark. This uncertainty was to play a crucial role in what happened next: while Putin may have intimated that he could accept the partial sale to ChevronTexaco, he was resolutely opposed to the sale of a majority stake to ExxonMobil.

Bruce Misamore was Yukos’s chief finance officer during the discussions with the Americans. In the period leading up to the proposed deal, he chaired weekly discussions with Khodorkovsky and the other Yukos executives over negotiating

strategy and due diligence investigations. Misamore told me he initially had high hopes for success — the Kremlin appeared to be playing ball:

It was . . . April. Khodorkovsky went in to see Putin to tell him about the deal that we wanted to consummate, the acquisition of Sibneft. Mr Putin was delighted with the prospect because it was put to him as, ‘We will create’ — I think at that time it would have been — ‘the fourth or fifth largest oil company in the world’. It was by far the fastest growing major oil company in the world. The projection was that by 2006 it would be the largest crude oil-producing company in the world, larger than ExxonMobil. So Mr Putin was presented with the opportunity to have a national champion oil company that would be the premier oil company in the world. He was tickled pink, so to speak, and he absolutely supported it and gave us his full support . . .

But Misamore says the atmosphere deteriorated markedly when details of the putative American deal began to be discussed in public. Despite all the attempts to keep the negotiations secret, hints began to emerge in the Russian media. Khodorkovsky’s constant shuttling between Moscow, Washington and Houston could hardly go unremarked. And the Kremlin began to think he was up to no good:

I am not sure of all the circumstances that changed Mr Putin, but Mr Putin had a definite change . . . During the course of 2003, at the same time we were trying to complete the Sibneft acquisition, we also began discussions with ExxonMobil and Chevron. They were two very different transactions . . . but we initiated discussions with [them both] about perhaps the Menatep Group selling a portion of its shares to ExxonMobil or to Chevron.

Bruce Misamore is a disarmingly frank Midwesterner, from Toledo, Ohio, who has spent his entire career working in the oil industry. Talking to him now in the bar of an upmarket London hotel, it is clear he has genuine regrets over his decision to join Yukos: it was 2001, he was 50 and had been planning to retire. But he says Mikhail Khodorkovsky’s plans to create the world’s biggest oil company were irresistible — he wanted to be a part of them:

When I came to Russia and Yukos, I viewed it as coming with a clean slate and we could model the company to be the best in the world and not pick up some of the very bad practices that existed in other places. Mikhail was very astute; he was a brilliant person. He is one of the smartest guys I have ever known, a visionary, a leader and a very good manager, although he was never trained in management skills so there were some rough edges. I had an extremely close relationship with Mikhail and people knew it. I could talk to him and tell him things frankly, and he took them on board.

So when it came to the biggest decision of his life, Khodorkovsky listened to Misamore’s advice. The two of them clearly recognized the dangers they were

running in courting the Americans, and Misamore was concerned that leaks about the talks could enrage the Kremlin:

Before his arrest, Mikhail and I had two-hour meetings — sometimes longer — just the two of us, with an interpreter, every Monday afternoon. Everything was fair game. About two to three weeks before he was arrested . . . he told me that final bids were due in within a week. It could indeed have been the case that ExxonMobil or Chevron might have become a majority shareholder in Yukos–Sibneft . . . When I asked whether he had a leaning [towards one of the two scenarios] he said, ‘No, I really don’t . . .’ He said, ‘I’m not going to do a deal if the deal isn’t right and if the price is not what I feel is appropriate for the value that is being transferred’.

In the end, it was a chance misunderstanding worthy of a Thomas Hardy novel that decided things — and ultimately triggered the collapse of the whole Yukos edifice.

At the height of the negotiations, the deal to sell a minority stake to ChevronTexaco began to emerge as the favourite, not least because Khodorkovsky had understood that Putin would simply not tolerate Americans taking over the whole company. Through his contacts in the Kremlin, he let the President know that he had accepted Putin’s unspoken condition — he would not cede overall control to the Americans.

But the suitors from ExxonMobil were not giving up easily. Perhaps sensing the deal slipping away from him, ExxonMobil’s chief executive officer Lee Raymond went to see Vladimir Putin. Bruce Misamore recalls the disastrous events that flowed from that meeting:

Misamore: What happened was that Putin, who had been delighted with the Sibneft acquisition, had an audience with Lee Raymond of ExxonMobil. I was not in the meeting, but I think Mr Raymond told Mr Putin that the possibility existed for ExxonMobil to take a majority interest in Yukos–Sibneft or would have rights to go up to at least a 51 per cent interest in Yukos–Sibneft. I think it scared Mr Putin that Americans might own 51 per cent of this national champion oil company that he was so excited about . . . Lee Raymond had put the fear in Mr Putin, even though [the deal] may not ever have happened.

Sixsmith: Do you think Lee Raymond was being a little mischievous, then, in presenting Putin with this scenario under which he claimed the deal *was* going to happen?

Misamore: No, I think Lee Raymond was being Lee Raymond, which is extremely egotistical and coming in and bragging almost to Mr Putin that he was going to take over his largest oil company. I think it scared Mr Putin in that respect. You had Putin saying, ‘Wait a minute, I just gave approval for Yukos–Sibneft but now I’m finding that they are going to turn around and sell a *majority interest* in that company to a non-Russian company’. And the political aspect of this was . . . that Putin had filled the Kremlin with

former KGBers and former military types, so there was this whole ultra-nationalistic fervour that was brewing within the Kremlin. There was a re-nationalization movement within the Kremlin to try and take back some of these crown jewels . . .

After Raymond left the room, Putin turned to his aides and said icily, 'Khodorkovsky lied to us again'. As with his denial that he had met the Communist leader, it appeared Khodorkovsky had once again promised one thing and done exactly the opposite. It was early October 2003 and for Putin it was the straw that broke the camel's back. The next morning he called in the Prosecutor General, Vladimir Ustinov, to discuss the 'Yukos problem'. From that moment, the die was cast.

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The ExxonMobil gaffe

Lee Raymond had arrived in Moscow on 3 October, a few days before his Kremlin meeting, for the World Economic Forum. On the same day, the Yukos–Sibneft merger was formally completed. Rising oil prices and better-than-hoped-for performance meant the new company was worth \$45 billion, considerably more than the \$35 billion originally projected. The 3 October edition of the *Financial Times* carried a story that looked very much as if it emanated from the Yukos press office, predicting that Raymond was about to sign a deal to buy a 50 per cent stake of Yukos–Sibneft for an estimated \$25 billion. Exactly why the ExxonMobil boss decided to tell Putin he was going to buy a majority stake remains a mystery, but there is little doubt that it succeeded in nixing the whole project.

Within hours of Raymond’s meeting with the President, the Kremlin had sent armed police to raid a series of Yukos premises, including a Yukos-owned business club, and announced that they had — miraculously — seized evidence of schemes to evade millions of dollars in taxes. It was a warning to Khodorkovsky, and an even more blatant message to Raymond that he may want to think twice about buying a company that was attracting such personal attention from the arm of the law. Irina Khakamada, the Deputy Speaker of the Duma and a supporter of Khodorkovsky, said it was an unavoidable conclusion that the upping of the Prosecutor’s campaign against Yukos was the direct result of the reports of the sale to ExxonMobil.

At the conclusion of the World Economic Forum on 4 October, Vladimir Putin was again playing his innocent bystander role. In an interview with the *New York Times*, he professed ignorance of the machinations over Yukos. Asked about the stories of ExxonMobil buying a stake in Yukos–Sibneft, he somewhat disingenuously replied, ‘We favour foreign-capital involvement in Russia’s economy’. The interview gave just one hint of the anger that was boiling behind the scenes: ‘Yukos of course has the right to sell some of its shares to foreign investors’, the President was quoted as saying, ‘but it would be the right thing to have preliminary consultations with the Russian government about this matter’.

Yukos was also adept at dealing with the media. Stories painting Khodorkovsky as a champion of liberty and free enterprise suddenly appeared in liberal Russian newspapers and in a substantial proportion of the Western press. An equal number of stories representing Vladimir Putin as a repressive enemy of business and free trade made an appearance. The question of whether or not the Kremlin would approve the ExxonMobil deal was presented in these stories as a litmus test of the Putin regime: would it accept the deal and prove its commitment to freedom and friendly relations with the West? Or would it

turn it down and show that Russia was still just as repressive as it had been in Communist times? It was hardly a fair representation of a complex political and economic decision, but the Western media like to operate in simple stereotypes and the Yukos press service knew its job. Yukos won the battle of the media, but it was a pyrrhic victory.

The commercial tussle was still being played out in the world's press, and Yukos was still officially hopeful of concluding a deal with the Americans, but Khodorkovsky was beginning to plan for the worst. He felt increasingly that he was being cold shouldered by Putin and he sensed the influence of his allies, Mikhail Kasyanov and others, fading fast. Bruce Misamore recalls the feeling that the chances of success were slowly slipping away:

Up until June or July 2003, Khodorkovsky had access to Putin if he wanted it. He did not abuse it and he absolutely did not call Putin every month. He used it very sparingly, but he did have access. Then one time he told me that he had tried to go and see Putin but Putin would not see him.

I am not sure exactly when Lee Raymond went in, but it could have been something to do with that. It could have been Lee Raymond, or a change for the re-nationalization that was starting to occur behind the scenes in the Kremlin. It may have been that Putin was starting to develop the plan to put Khodorkovsky out of business.

He kept trying to see Putin. He was getting very frustrated that Putin would not at least talk to him. He could not understand why not, because even though he thought Putin was very dangerous for the country, he still felt that Putin was a guy he could talk to. Putin was basically refusing to see him, so he was getting frustrated by that.

Then, very late on — and I heard about it after the fact — he was getting warned that he needed to leave. In the typical Russian manner, through twenty-third cousins. It goes way around the circle and he was told he was in danger and needed to leave. It could even have been Gorbachev, because I remember very shortly before he was arrested he had a meeting with Gorbachev. Gorbachev could have conveyed that; Gaidar could have conveyed that. They probably got messages to him in various ways, but I know he had a meeting with Gorbachev shortly before he was arrested.

Misamore's information suggests the warnings to Khodorkovsky were now coming not just from his friends and well-wishers but — via intermediaries — from the Kremlin itself. Khodorkovsky could no longer afford to ignore them. He summoned Nevzlin, Brudno, Dubov and the others, and told them the time had come for them to get out. He said the Kremlin's final act of vengeance against them all could not be far away, and he could no longer guarantee their safety. He personally had decided to stay and fight — he still hoped against hope that the American deal could be finalized and that the ties it would create to Washington might offer him some measure of protection — but they should save themselves while they still could.

Mikhail Brudno told me it was an emotional occasion; it was to be the last time he saw his friend:

Brudno: I came here [Israel] late in 2003. Platon had already been arrested. It became clear that a whole campaign had begun against us. And I decided, or rather Khodorkovsky decided, that that was it. They already had one hostage in their prison. That was enough. He said, ‘Leave. We don’t want them to take another one of us hostage . . .’

Sixsmith: Did you feel you were under threat?

Brudno: Personally I did not. *He* felt that I was under threat. He thought there was a threat to me.

Martin Sixsmith: But you did not?

Mikhail Brudno: I did not. I resisted. I did not want to leave — I had my work to complete; I had work to do, and I wanted to do it.

At Khodorkovsky’s insistence, Brudno and Nevzlin flew to Israel. Dubov would soon follow. They all filed applications for Israeli citizenship. But they hoped the crisis in Moscow would blow over and they would return to Russia.

Leonid Nevzlin says that hope lasted only as long as Khodorkovsky was still at liberty:

What I liked about being there [in Russia] was that there I could find meaning in my life by trying to move Russia towards democracy, freedom and pluralism. Without that, there was nothing for me there . . . if there’s no freedom or democracy.

When the whole business with Yukos started, at first even I — and even Khodorkovsky — took no notice: well, what of it? — these things happen, it’ll be sorted out. Then came Lebedev’s arrest — that was a partner being arrested already. Then many people started being persecuted . . .

When I first came here [Israel], I thought I would be here a few months: I thought I would write my dissertation and fit that in with getting my Israeli citizenship. Then I would see what happened.

But then came Khodorkovsky’s arrest. When they arrested Khodorkovsky, I knew my stay here was going to be much longer. It was obvious I could never return to that country while Putin was in power.

Nevzlin had applied for Israeli citizenship in September; Khodorkovsky was arrested on 25 October, and Nevzlin’s citizenship came through on 2 November.

One Yukos executive who did not leave Russia was Alexander Temerko. He had been playing a central role in the negotiations with ChevronTexaco and ExxonMobil, and he volunteered to stay to help Khodorkovsky in the last-ditch efforts to salvage the deal. Even today, Temerko is bitter that the Kremlin allowed them to get so close to an agreement with the Americans before pulling

the plug. In his darker moments he reproaches himself and Khodorkovsky for not fully realizing the urgency of the situation: had they done so, they might have been able to rush through a contract that could possibly have saved them and the company:

You know, we got so close to an agreement with regard to the sale of the company. The only issue to resolve for a final agreement was the price. If, say, we had made concessions on the price for Exxon, we would have sold the company. Or we could have made concessions on the shares to Chevron and we would have exchanged those shares. The only remaining issue was the price, really. Khodorkovsky and Shvidler were in charge of the negotiations. They were very close to signing it, and it was really only the price they were trying to come to final agreement on. All the protocols were signed and everything. So if there had been no delays, if we had really realized the way things were heading, we would have sold part of the company . . .

But, then again, I suppose even that was no guarantee for us. The Russian authorities could still have taken it away, from either Exxon or Chevron. But that's all beside the point now. The main thing is that it would have been a very different story.

A final plea?

In his last days of liberty, Khodorkovsky was showing signs of strain. He had sent his comrades to the safety of exile, but he could no longer ignore the danger he was in. For the first time, he seemed to be making an effort to sue for peace. When he was asked if he regretted his behaviour at the February meeting in the Kremlin, when he seemed to accuse the President of corruption, he sought to downplay the affair with some unusually conciliatory remarks:

I have met the President on many occasions, both before and after [that one]. And I must say in general the atmosphere at meetings between the President and us businessmen is pretty frank and outspoken. We talk to each other quite bluntly and we stand our ground. But we always know the President has the final word. The final decision is always his. If we speak out or stick to our guns, Vladimir Vladimirovich doesn't hold it against us.

The media have tried to play up my alleged quarrel with the President and that shows someone is getting ready to attack me. But they won't make me fall out with the President. He and I spoke and then we moved on to other subjects. There was nothing unusual in what happened.

The presence of ChevronTexaco and ExxonMobil executives at the World Economic Forum on 3 and 4 October had allowed negotiations on the planned Yukos sale to advance, and the devastating consequences of Lee Raymond's gaffe in his conversation with Putin had not yet materialized. So Khodorkovsky flew off to Washington the following week still hoping he could save the day by appeasing the Kremlin. His speech at the US–Russia Business Council on 9 October was a model of restraint. He praised Vladimir Putin for presiding over Russia's flourishing stockmarket and boosting private enterprise. He claimed the President had shown that private property in Russia was now guaranteed by law . . . although in light of the state's attacks on Yukos this sounded more like a plea than a confident assertion. Asked if he believed Putin was personally behind the campaign against his company, Khodorkovsky executed a nifty sidestep:

In our country, the President is elected by direct suffrage. According to the latest surveys, 70 per cent of the voters are for him. In other words, we have to assume that his actions and his decisions are legitimate and acceptable for the majority of my fellow citizens. Therefore, if President Putin says he has to keep his distance from this matter, then that means the majority of my fellow citizens also think this. So there is nothing else for me to do other than agree and continue to deal directly with our law-enforcement system.

It was a careful response, avoiding a direct accusation of complicity against Putin while subtly suggesting the President could halt the attacks if he were so minded. As for the real culprits behind the assault on Yukos, Khodorkovsky pointed a finger at the political forces — for which an informed listener would have read ‘the Siloviki’ — manipulating a corrupt judicial system:

We still have many problems in our country and the main one of them is the problem of individual rights. We are far behind modern countries in this area. My partner, Platon Lebedev, has been held in gaol for three months now, despite the fact that the accusations levelled against him have been shown to be completely bogus. Unfortunately, this is far from an isolated incident. We do not yet have an independent judiciary in our country. Our judiciary is dependent on the executive branch of power, and this is a big problem. Our law-enforcement system is still based on Soviet methods . . .

Khodorkovsky knew his speech would be closely analysed in the Kremlin and seemingly he hoped it might still have an impact on the fate that awaited him. It was a crucial test. Margery Kraus, president of the APCO public affairs consultancy, advised him that day in Washington and she recalls how confident he seemed:

His last speech in the US was in October. Lebedev had already been arrested. We were in his suite at the hotel getting ready for him to give his speech and we had some talking points. It was not a written speech and we talked through some of the things he wanted to say. He was going back and forth about how much he should really say about his friend [Lebedev]. He did not feel right not saying anything. So we had a small group and we were talking to him. He came out of that meeting, walked down and gave a great speech. And I remember thinking — at the same time we were doing all of this, he was going round getting us Diet Cokes out of his refrigerator and serving us stuff, which was not exactly a part of him that other people would see . . .

But behind the outward show of calm, Khodorkovsky was contemplating the likelihood of disaster. Margery Kraus says they spoke at length about the dangers awaiting him if he went back to Russia, whether he should ask for asylum in the US, and what they should all do if he were to be sent to gaol:

Kraus: One of the things that happened . . . when someone is arrested, trying to figure out the strategy when the person is in prison is hard. So with Khodorkovsky I said, ‘OK, if something happens to you . . .’ It was one of those conversations you do not like to have. It is like, ‘What do you want for your funeral?’

Sixsmith: How did he take it? Was he willing to have the conversation?

Kraus: We had a very direct conversation. I explained why, and basically he was told . . . that maybe he should think about not going back, was it really safe for him to go back,

and he said, 'I have to go back.' 'Why do you have to go back?' He said there are certain things in life, 'It is my country and if I cannot take a stand then nobody can. And if I do not do this, then how can anybody else challenge what is going on?' I said, 'Can you succeed?' and he was not sure he could . . . it was fifty-fifty.

So I think he felt . . . he had an obligation to do something. He did not want to be like a Berezovsky or a Gusinsky and run away from things. He wanted to take a stand to help the people who came after. I think he really believed that.

I think he felt there was a chance he could win. He was not realistic about the power of the state, the odds, and I think he never imagined they could take his assets. I think he had thought that he could go to prison, but I believe he did not think that would be a long-term proposition. I think he thought he could be in for as much as fifteen months . . . that they would try to teach him a lesson and then he would be out.

I think he thought the trade-off of doing that was worth the risk, because of the way he saw this from his own point of view. We can all sit here and second-guess that, but that is what I think was in his head at the time.

Support for Margery Kraus's view comes from the speech Khodorkovsky made that evening in Washington. He wound up his remarks by outlining the choice Russia was facing between Western-looking liberal reform and a return to repression and isolation; between the liberals and democrats, and the hard-line *Siloviki*. What jumps out from his remarks is that Khodorkovsky clearly believed his own actions and the fight over Yukos had become the turning point that would determine the outcome of the historic clash and influence Russia's future:

You have no doubt often heard that one of the reasons for all this happening in the first place may have been my political activism. Indeed, we, along with our business colleagues, together defend our interests before the parliament. We do this in public, we do this openly . . . But the company does not take part in political battles.

The question before us right now is a much more difficult choice. Are we going to become a democratic Russia for the first time in our thousand-year history, or are we going to continue along our thousand-year path of authoritarianism?

Modern civilization gives Russia no hope of becoming a modern society in the economic sense without becoming the same in the democratic sense. So right now is a critical moment for Russia. Russian society is going to resolve the question of which path our country is going to follow. Which model of development are we going to choose for our country: the authoritarian one, or the more up-to-date model of a civilized modern state?

I very much hope that we will make the right choice. And foreign investment is a great help to us in this. When we meet to celebrate the next ten years in 2013, we will already know the answer to the question of which path Russia took.

I very much hope — and this is in all our interests — that Russia will have taken the right path.

Thank you very much.

Before leaving to go back and face the music in Moscow, Khodorkovsky was invited to meet the editorial board of the *Washington Post*. Some of the Americans present spoke of their visitor as a potential future President of Russia. But one person who was present at the lunch told me Khodorkovsky was at pains to deny any political ambitions:

I want to tell you something. [Khodorkovsky] met with the editorial board at the *Washington Post* right before he was arrested. I was with him. He was asked that question: did he have any aspirations to become President of Russia? His answer was interesting and, I think, worth considering. He said, 'I have a Jewish last name. Whether I consider myself Jewish or not, everybody in Russia thinks I am Jewish and there is no way in the world there is going to be a President of Russia with a Jewish name.' He said, 'I am telling you this because I am realistic enough to know that I am not going to be President'. Therefore, whatever his political aspirations or interests might have been, he did not think he was going to be President of Russia. So I do not think his decision to go back [to Moscow from Washington] was calculated in that way.

Khodorkovsky's last interview before being arrested was with a local television station in the Siberian city of Tomsk. He was already on the whistle-stop plane tour that would end with his arrest in Novosibirsk. Looking weary but sounding combative, he repeated his belief that the assault on Yukos was the result of the ongoing political struggle that was raging in the Kremlin — the Siloviki were attempting to oust the remnants of the liberal, reformist Family . . . and Yukos was the issue they had chosen to demonstrate their supremacy:

You know, when we took the decision to merge Yukos and Sibneft I was well aware that we were creating a serious world-class economic entity. It was obvious this was going to create tension between the political factions . . . and that it would become a factor in the struggle for power.

We are being attacked not because of something we did. It is the very existence of an independent company like Yukos — the biggest in the country — that they see as a threat to them. And by 'them' I mean those [politicians] who are still stuck in the old ways of thinking. I don't want to get into naming names, *but I firmly believe this whole affair is the result of a struggle for power taking place between the various factions in Vladimir Putin's entourage and administration.*

The interviewer from Tomsk Television bravely presses Khodorkovsky to name names — he says the Russian people know there are two warring groups in the Kremlin, 'the old liberals, the remnants of the so-called Family from the Yeltsin era . . . and the faction of the security services [KGB] from St Petersburg. Am I right in thinking it this last faction who really do not like you?'

Khodorkovsky gives the journalist credit for persevering, but says, 'I am really not going to give individual names. You can work out who I mean, though. I think you can do this . . .'

And in case the viewers have not understood, he adds:

Yukos has become a factor in the battle for power. We are not a player in that battle. We are a target that is being pursued by those who are taking part in the battle . . . And this is strange because President Putin said we will not revisit things that happened before 2000 [i.e. privatization]: that is history now. And since 2000 we have been living by different rules. It is precisely that social contract which has created stability in Russia . . . But now it seems some factions want to tear up the social contract.

Asked if it could be his own incursions into the field of politics which have angered the Kremlin, Khodorkovsky is emphatic:

Absolutely not. I have been an active figure for fifteen years now and if my vocation had been to be a dissident, I would have done that already! . . . Businessmen should stick to our own sphere, and the politicians should stick to theirs.

But he acknowledges that his success in business has made him and the other oligarchs very unpopular with the Russian people. This, he says, is a factor that makes it an attractive proposition for the Siloviki to target the oligarchs and their property:

I have no doubt that the majority [of Russians] think ‘it serves them right, those oligarchs’. Unfortunately, that is the mentality of our people. I just hope one thing — that folk have the good sense to realize that if an unlawful attack on the oligarchs is allowed to succeed, then everyone else is at risk as well. Ordinary people can no longer feel safe . . . But let me say: they haven’t managed to scare me off or dissuade me from doing what I know is right. If they had scared me off, if I was so weak that I didn’t believe we could build a normal society here in my lifetime, then I would have run away to exile. But I *do* believe we can do it . . .

A couple of weeks later, Mikhail Khodorkovsky was in gaol.

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Arrest in Siberia

Anton Drel had been Khodorkovsky's chief lawyer for three years. When Platon Lebedev was arrested, it was Khodorkovsky who asked him to take up the case for the defence. For the three months he had been in prison, Lebedev had been Drel's chief concern. He was not optimistic, but Khodorkovsky had instructed him to spare no efforts.

In October 2003, Drel's workload was about to double.

I went to see him [Khodorkovsky] a week before his arrest. It was on Sunday and I was at his home, five days before his arrest on 25 October. It was about midnight, and he asked me to come over. He said he was going to leave early the next morning, Monday, to travel all round Russia on the Open Russia business.

I said to him, 'So what happens now?' He told me he was not changing his plans; *let everything be the way it would be . . .*

It was hard for me to argue with him. Even now, with hindsight, I realize that no matter what I had told him, he wouldn't have changed his mind. And yet I think I should have somehow tried and convinced him.

He still had a chance to leave. I think that even on 23 October he had a chance to leave . . .

The two men sat in Khodorkovsky's kitchen that night and Khodorkovsky made them a pot of Georgian tea. It was one of his last moments of tranquillity: his final hours of freedom were to be spent in a frenzy of nervous movement. He had considered not returning from Washington, but had come back. Now, at once, he was setting off again: to Lipetsk, Voronezh, Belgorod, Tambov, Saratov, Nizhny Novgorod, Novosibirsk, Irkutsk . . .

His journey to Siberia (the destination has a lambent irony to it) has been derided as a panicky attempt to flee from arrest. It wasn't — although as we have seen, he did briefly consider asking the pilot to fly him to Helsinki. But neither was it the innocent field trip to inspect Yukos extraction facilities it was presented as. Khodorkovsky was flying between regional governors and local politicians in Yukos's Siberian heartlands, desperately trying to garner support for the ExxonMobil/ChevronTexaco deal and hoping against hope that their backing would persuade the Kremlin to give him a reprieve.

He was pursuing another goal, too. He had learnt that his friend and fellow Yukos executive Vasily Shakhnovsky was facing arrest. Unlike Nevzlin and Brudno, Shakhnovsky had rejected the advice to flee abroad, and Khodorkovsky was looking for other ways to protect him. His plan was to provide Shakhnovsky with legal immunity by engineering his election to the Federation Council,

Russia's upper house. The 176 members of the Council are appointed by Russia's regional authorities — each region nominates two representatives, one of which is in the gift of the provincial governor. In October 2003 a post from the Siberian province of Evenkia was vacant and needed to be filled. So Khodorkovsky's flight to Siberia that week was aimed not — as was subsequently claimed — at getting parliamentary protection for himself but at helping his friend.

Alexander Temerko claims Shakhnovsky would ultimately repay Khodorkovsky's kindness with the darkest betrayal:

Khodorkovsky thought that Shakhnovsky was going to be arrested. The reason he went there was to save Shakhnovsky. He wanted him to be elected a member of the Federation Council as a representative of Evenkia. And Vasya later on 'thanked' him in a very weird way. He betrayed him and betrayed him big-time.

Khodorkovsky managed to seal the deal to get Shakhnovsky appointed before he was himself arrested. The Evenkia authorities may have agreed to it because of the Yukos men's promises of investment in the region, because of other inducements, or simply because Yukos was a big employer in Siberia. The nomination to the Federation Council was announced on 28 October, when Khodorkovsky was already sitting in a Moscow cell.

Ultimately, Shakhnovsky did not benefit from Khodorkovsky's gesture because his appointment was annulled by the Kremlin: the Prosecutor's Office argued that legal proceedings had already been opened against him and the election was therefore simply an attempt to prevent them going ahead. Like Khodorkovsky, Shakhnovsky was charged with tax evasion but he was not arrested, and the following month he agreed to pay nearly \$2 million in back taxes. As we will see, he remained in Russia where some of his comrades came to believe he and one other partner had secretly turned against them and become traitors to the cause. The trauma of October 2003 spawned personal dramas for those caught up in it, individual crises and conflicts between former comrades . . .

At 5.30 a.m. on Saturday 25 October 2003, Anton Drel's mobile phone rang. Drel was fast asleep and nearly missed the call. In the darkness of the bedroom, he saw the illuminated screen was flashing 'Mikhail Borisovich — mobile'. He thought it was strange — his boss was in western Siberia — but he pressed the answer button. An unfamiliar voice said, 'Bad news. The FSB have arrested Mikhail Borisovich. They've taken him off somewhere and we're sitting here on the plane. What should we do?'

Talking to him now in his London office on a rainy Monday afternoon, Drel seems philosophical about the events that overtook him five years earlier. He tells me he had no idea at the time how their consequences would shape the course of his life:

When it all began in 2003, when Khodorkovsky was arrested, I went to see him. Then

I visited him every day, for all of the next three years when he was in Moscow, in Matrosskaya Tishina Prison. Then almost daily I was in court. Then dozens of times, I went to see him in the correctional facility in Krasnokamensk and the penal colony in Chita . . .

Drel smiles as he recalls his reaction to the early morning phone call that got him out of bed:

I said to the guy who was phoning, ‘How do you know it was the FSB that arrested him?’ and the guy said, ‘Well they were wearing combat jackets with FSB written on them . . . and they showed us their IDs . . .’

That’s how I found out about it. It was his guard calling me — Khodorkovsky had managed to leave him the mobile and told him to ring me . . . He was arrested, taken away, and the guard said, ‘He told me to call you’. So I thanked him and I asked where they’d taken him but he knew nothing. Khodorkovsky had his own personal security guys. He’d given them his cell phone and said my number was in it, and they called me from the plane, from Novosibirsk. I was in Moscow. It was 5, 5.30 in the morning. What was I to do?

In fact, Drel spent the rest of that Saturday frantically trying to find out what was happening and get some idea how serious things were:

It was 5 or 6 a.m. and I had no idea where to begin. I called the Prosecutor’s Office and there was no one there at that time, so I started packing some things and I was getting ready to fly off to Novosibirsk. I didn’t know if he was in Moscow by now or where he was. Where should I get tickets to?

And then at 11 or 12 Moscow time, my cell phone goes off again and I see ‘MBK — mobile’. I was amazed. So I say, ‘Mikhail Borisovich?’ And he says very politely, ‘Anton. Do you have a moment to talk?’ He always started conversations like that, ‘Do you have a chance to talk?’ Ha! He told me they’d brought him to the General Prosecutor’s Office and he asked if I would come over. And I said, ‘In Moscow?’ ‘Yes, in Moscow.’ OK then! An hour later, I was there.

On that first day of many that were to follow, Drel picked up his briefcase and drove into the centre of Moscow. The first heavy snow of the Russian winter had fallen overnight and traffic was moving slowly. Snow ploughs were sending plumes of white into the frozen air. As Drel drove, his mobile rang incessantly. The journalists on the other end of phone seemed to know more about the events in Novosibirsk than he did: ‘Khodorkovsky got beaten up’, they told him. ‘The FSB thought he was trying to escape and they bashed his head in.’

Trying to remain calm, Drel methodically dialled his way through the numbers in his car phone, calling each of the key figures in the Yukos management to tell them the boss was in gaol. Bruce Misamore says the news came as little surprise:

Yeah. He knew it was going to happen, because at the Monday meeting the week before his arrest I went in to see him and he'd shaved his head. He had a very short haircut. I said, 'What's this about? New haircut?' He said, 'I've had it this way before'; but he was preparing himself for being arrested. He knew he was at risk of arrest and he was preparing himself. He had shaved his head. That was very unusual for him.

When I ask Misamore why he was convinced it would happen that week, he says all the many factors provoking the Kremlin's anger against Khodorkovsky had simply boiled over, including the fact that the deal to sell Yukos to the Americans looked certain to be consummated:

Well, he was on a trip on Open Russia business. That has something to do with it. Another thing was that the elections were ahead of us. I think the critical mass just exceeded the balance at that time. It was not a secret that in early November, in late October, there was going to be a memorandum or a protocol signed with Chevron, Exxon . . . He was flying out of Nizhny Novgorod. And from Nizhny Novgorod, he sent all of his advisers out on one flight . . . because somebody called him and said the warrant for his arrest had been issued. He went on alone, because he was expecting it . . .

The person who phoned to warn Khodorkovsky was Alexander Temerko. Khodorkovsky had brought Temerko in to Yukos because of his longstanding contacts in the Russian government, and one of them had tipped Temerko off in advance:

Temerko: I rang Khodorkovsky and told him I'd had a phone call from the Prosecutor General. He'd told me there was going to be a warrant for his interrogation. He was on the plane then, so I called him and said, 'Misha, you have to come back . . .'

He said, 'If I come back, what then? If I go there for interrogation, what will happen? Do you think I'm going to go there and give them recognizance not to leave? That I will stay in Moscow? If they want me, tell them I'm away on a business trip and when I come back in two days' time I'll go to the Prosecutor's office and give my testimony.'

I called the Prosecutor again and told them what he said. They replied, 'OK, then tell him we'll arrest him even sooner!' I called him again and said, 'Misha, it looks like they're going to arrest you straight away . . . even sooner than they'd been planning before.'

He said, 'OK, Sasha. It looks like we'd better say our farewells to each other . . .'

At the Prosecutor's Office, Anton Drel was admitted at once. The guards had been told to expect him. Inside, he found the place full of activity even though it was a weekend. The door of Salavat Karimov's office was open and Drel saw him at his desk inside. The two of them knew each other well — Karimov was the lead investigator in the Lebedev case, but now he shrugged his shoulders as if to say, 'It's nothing to do with me.'

In another office further down the corridor, Drel found Khodorkovsky

with a cigarette in his mouth deep in conversation with a junior investigator. Khodorkovsky had never smoked before the controversy over Yukos: he had taken it up after Lebedev's arrest a few months earlier and would kick the habit in prison a few months later. Drel thought he seemed in good spirits.

The three men chatted for a while about the weather and eventually Khodorkovsky said, 'OK, Anton. They've done all the questioning this morning. We need to sign the written record.'

Drel says he advised his client to make a formal complaint over the way he had been treated, but Khodorkovsky said, 'What for? They're just doing their job.' They signed the record of the interrogation and were told the formal charges would be read to them in an hour.

Drel says he asked the investigator if that meant they were free to go:

All this time we were free to walk about the building of the Prosecutor's Office and could talk on the phone freely. Actually we could formally even leave the building because he was given the subpoena, I think, for 5 p.m. and it was 4 p.m. I told him we could walk and we could leave — well, formally we could.

Drel says the investigator went white and mumbled that they must promise not to leave the building. Khodorkovsky laughed and said, 'Don't worry. Anton's just joking.'

For the next sixty minutes, the two of them wandered the corridors of the Prosecutor's Office. Drel says Khodorkovsky asked him to ring his parents and tell them he was under arrest but that he was OK — that the rumours on the radio about him being beaten up by the FSB were just journalistic invention. Khodorkovsky did not want to speak directly to his mother because he was afraid it would make him too emotional, but he did call his colleague and friend, Alexander Temerko.

Temerko says it was a difficult moment for both of them:

After I rang him on the plane, I only ever talked with him one more time — when he was being interrogated at the Prosecutor's Office. It was during the first interrogation. Maybe it was during a break in the questioning. He called me and I picked up the phone — his mobile phone was still working — and he said, 'I am being questioned right now. I can't say much, but I will call you again as soon as I leave here.' I said, 'OK, I'll be waiting for your call.' That was how the conversation went. It was the last time we ever spoke. It has already been more than five years now . . .

At the appointed time, an official summoned Khodorkovsky to a different office and announced the charges against him. Drel says the man was extremely nervous and repeatedly asked them if they were satisfied with the way they were being treated. Drel again wanted to complain, but Khodorkovsky said, 'What's the point of arguing? It's not down to these guys.'

The charge sheet indicated Khodorkovsky had been arrested because he

failed to appear for questioning and that he was accused of theft, fraud and tax evasion, both personally and by his company, 'inflicting damage on the Russian state' amounting to \$1 billion. His personal fortune had been estimated the previous year by *Forbes Magazine* at \$8 billion. Both sides were playing for big money.

Having acknowledged that they understood the charges, Drel and his client were loaded into a Black Maria to be taken to Moscow's Basmanny Courthouse. The van drove to the back entrance while another identical vehicle drove to the front gates to distract the media. Inside, the court building was empty. It was a Saturday evening and no regular business was being conducted.

Anton Drel told me it suited the authorities to keep the proceedings secret:

The court session was a closed one. Not due to some official decree, but simply because it was a Saturday, 6 p.m., and the court building was locked up. At the weekend, nobody's let inside the place. So there were a million reporters left swarming around outside . . . even though technically it was an open session. We came into the court and it was all very formal. The judge said, 'Two months remand'. It was Saturday, about 8 or 9 p.m. by now. I walked over to his wife. His parents were there, too.

Drel immediately applied for bail. He says Khodorkovsky was becoming increasingly alarmed by the hugger-mugger nature of the legal process. He was beginning to realize his hopes of a public platform for his defence were likely to be unfounded:

Yes. He wanted to have an open defence, an open process. He was shocked by the way he was detained, by his arrest, and then the court. I think he believed — no matter how funny it may sound now — in justice. Basically, according to the law, they could keep him in custody. The problem with that is that they need some evidence that he might flee, or destroy evidence, or put pressure on witnesses. In Khodorkovsky's case, the only thing they could think of was that he had two international passports. This was the proof that he might abscond! We handed the passports over but still they wouldn't grant bail. It was silly to claim he would flee: he'd had plenty of chances to do so and he hadn't left.

The judge ordered the guards to take the prisoner away. Before leaving the court, he was told to hand over all metallic objects, including his watch and his wedding ring, to his lawyer. Khodorkovsky asked Drel not to tell his wife he had to take his ring off. Drel has kept it in his office safe, together with Platon Lebedev's ring, awaiting the day they are released.

PART FIVE

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Counting the cost

Having been refused bail, Khodorkovsky was taken under armed guard to Moscow's Matrosskaya Tishina detention centre, where Platon Lebedev had already been in custody since the beginning of July. The name of the place, meaning 'sailor's peace', is misleadingly serene. The Tishina is one of Russia's most infamous remand centres, overcrowded and rife with tuberculosis, AIDS and hepatitis. Khodorkovsky was put in the *obshchaya kamera*, the general holding cell with scores of other prisoners, all of them common criminals and many awaiting trial for violent offences. It is a measure of his natural charm that he seems to have befriended his cellmates to the point that they were willing to put themselves out to help him. Despite a ban on mobiles in the gaol, one of his new friends took the risk of phoning Anton Drel on a secreted phone:

On the Sunday [the day after Khodorkovsky's arrest], I got a very unusual call on my cell phone. It was a convict calling me from the prison, from Matrosskaya Tishina. He was calling me from right inside the gaol! He said, 'Mikhail is here, beside me'. The convict said everything was all right, everything was fine: Mikhail was OK. The guy called right from the prison! On Monday I went to the Prosecutor's Office and got a permit, and on Tuesday I visited Khodorkovsky myself.

By the time Drel got to see his client, he had been transferred to a 'normal' cell, sharing with four or five other convicts. When he was brought into the lawyers' consultation room, Khodorkovsky was handcuffed, with hands behind his back. Drel counselled him not to place too much trust in his fellow inmates, as one of them at least was certain to be a stool pigeon relaying all his conversations to the prison authorities.

Among his other visitors, his mother Marina would line up every day to bring him food parcels to supplement the prison meals of buckwheat kasha and fish soup. His father Boris took to spending hours peering through the prison gates hoping to glimpse his son in the exercise yard. Khodorkovsky's wife Inna was living in the family home in their gated community in Zhukovka outside Moscow, trying to reassure the children that their father was alright and would soon be released. In the meantime, Marina and Boris moved in with her to give her a helping hand.

The court had given investigators the right to detain Khodorkovsky for two months, but in those early days there was a strong feeling among his friends and colleagues that the authorities would have to accede to Anton Drel's continuing applications for bail. Their near certainty on the matter was based on previous cases where unruly oligarchs had been given a rap over the knuckles:

in 2000 Vladimir Gusinsky, for example, had been given the short, sharp shock of three days in a prison cell. He was released when he promised to hand over his media empire to the state and go into exile. Lebedev's lengthy imprisonment made it clear this was a more serious case, but there was a belief within Yukos that Khodorkovsky could obtain both their releases if he would agree to hand the company over to the Kremlin and back down in his political stand-off with the President.

Mikhail Brudno, already in Israel by that stage, says it slowly dawned on them that reaching a deal with the authorities might be harder than they expected:

It was a shock [when Khodorkovsky was arrested]. We were not prepared for that. We thought he knew what he was doing. If he'd chosen to stay there in Russia, he must have known what he was doing. We were in a state of complete shock. And the biggest shock was not when he was arrested — it came later, when they did not release him after three days. Because then it became clear that it was all for real, and that it was all very serious — he had been arrested not because they wanted to threaten him; he had been arrested because they wanted him in prison . . . When we realized that, the real shock came.

Leonid Nevzlin, who had also been in Israel for several weeks before his friend's arrest, told me Khodorkovsky had come to visit him twice in Tel Aviv and had refused to contemplate the possibility of gaol:

I realized it could happen sooner or later — and I told him that here. Twice he came over here, and both times we talked about it . . . that it could happen. And he dismissed the idea.

In retrospect there may well have been a window of opportunity for a deal to be done in the first days after Khodorkovsky's arrest. The price of his freedom, though, may have been higher than the Yukos executives expected or were willing to pay at that stage. It would almost certainly have meant exile; the loss of all his wealth in Russia; the end of his political ambitions both through the Duma and through the social engineering of Open Russia. It also would probably have meant Khodorkovsky's remaining in gaol until December's parliamentary elections — or even the following March's presidential elections — were safely out of the way. Most gallingly, it would have meant eating humble pie in his epic battle of wills with Putin. As with many negotiations, it looked like a high price at the time and there was reluctance to meet it; but it came to look more and more like a bargain the longer conflict continued and the longer Khodorkovsky and Lebedev sat in gaol. By the time Khodorkovsky was willing to accept the deal it was no longer on the table.

Back in October 2003, Bruce Misamore says Khodorkovsky was still determined to have his day in court, to face down the President, the judicial machine and the whole might of the state:

The campaign to destroy Yukos clearly had started with that shot across the bow in July, but that meant that they were developing it back in May or June, at the same time we announced the Sibneft merger. The shot across the bow was Lebedev; ‘if you don’t want the same thing to happen to you, Khodorkovsky, you had better back off’.

Khodorkovsky did not back off.

In that respect, you have to know Mikhail and you have to understand him. As bright as he is, I think there was a bit of naïvety. I think he thought Russia had progressed further than Russia had . . . I think he thought Kasyanov and Voloshin, perhaps Gorbachev and Gaidar, would run to his rescue. Instead, they ran for cover.

All these people, who he thought might come to help him, did not because they were threatened. It was Soviet-type threats that started occurring to anyone who might help him — or for that matter Yukos — in any manner. When they decided to destroy the company, people were warned off from helping us.

So Khodorkovsky lost his support. The guys in the Kremlin, Igor Sechin and Viktor Ivanov, were the guys running the campaign against Yukos, as we found out eventually. Khodorkovsky told me that himself — that it was Sechin and Ivanov. He said, ‘The guys who are running this are Sechin and Viktor Ivanov’.

The Siloviki were undoubtedly in the ascendancy in the Kremlin power struggle. Sechin and Ivanov seemed to have won over the President and were moving to eradicate the remaining liberals in his administration. Over the coming weeks, the pressure on Yukos increased inexorably. When Anton Drel tried to hire a team of lawyers to help him with what promised to be a long and complex legal case, he found that one after the other they turned him down. Some refused to give their reasons; others admitted they had been warned off by phone calls from the Kremlin.

Yukos responded by talking to the few remaining independent newspapers and by handing out thousands of blue and yellow ribbons to the public: they were asking people to wear the company’s colours as a mark of support for Khodorkovsky and a protest against the political direction the country was taking. In late 2003, public sentiment was divided, but there was enough sympathy for the Yukos boss that the ribbons did appear sporadically on the streets. At the company’s headquarters on Dubinskaya Street in central Moscow, a large portrait of Khodorkovsky was hung defiantly in the foyer: visitors could hardly miss it.

Aside from the legal battle and the political shenanigans, the business of running Yukos had to continue. Its bosses may have been in gaol, but it remained a multi-billion dollar company and someone had to keep it functioning.

According to Bruce Misamore, there was initial panic:

That day he was arrested I think I was just kind of shocked. I called the international board members to make sure they were aware of what had happened. Then we gathered the management committee together on the Sunday — the following day, the 26th, was a Sunday. We had an emergency management committee meeting. I called

Simon Kukes too, and very quickly Mikhail asked that Simon be appointed as acting chief executive officer.

Simon Kukes had been a director of Yukos for less than six months. A 56-year-old Russian-born American, Kukes emigrated from the USSR to the US in the 1970s but returned in the mid-1980s as a highly qualified oil engineer. He rose to be president of TNK, where he oversaw the merger with BP. Now he was suddenly thrust into the top job at Yukos.

At the same time, the company appointed Steven Theede, a veteran American oil man from Conoco, as executive director of Yukos-Moscow, a subsidiary that ran most of Yukos's central corporate functions. Together with Bruce Misamore and the legal director Dave Godfrey, Theede brought a strong American presence that the company clearly hoped would protect it from the Russian prosecutors. Russian members of the new board included deputy chief executive Yury Beilin, Mikhail Brudno (even though he was now in Israel), and Yukos-Moscow vice presidents Alexander Temerko and Mikhail Trushin. Bruce Misamore says there was confusion because Khodorkovsky was still trying to run the company from his gaol cell:

The management committee was already constituted with Mikhail as its head. All of a sudden Simon became the head, but then there started to be all this confusion about who was running the company — whether it was Simon, Yuri Beilin — and all these people thought they had mandates from somebody.

One of the nasty habits of Khodorkovsky, because he never really had formal management training, was he had multiple people doing the same thing. From gaol, he would send out these edicts to two different people to do the same thing. It was very poor in the circumstances, in that it created a tremendous confusion as to who really had authority.

There was no question about my authority for my part of the business, but there was a question about who was really supposed to be running the whole show. Everybody was jockeying for position, so it became very confusing for a while.

Even within that, though, I think we did a fairly effective job of operating as a management committee to keep the company going.

The new CEO said he was not planning big changes to the way Yukos was run because the company 'was behaving properly'. Kukes, Misamore, Temerko and the others did their best to maintain business as normal. But the following months were far from normal: seemingly emboldened by the removal of Khodorkovsky, the Kremlin unleashed a furious onslaught against Yukos and all those connected with it. Shakhnovsky was arrested and then released on charges of tax evasion; the Menatep Bank in St Petersburg was raided on suspicion of fraudulent dealings; and the liberal Yabloko Party, which Khodorkovsky had been funding, had one of its offices raided and two of its deputies arrested.

Horrified by the fate of one of their number, Russia's top business leaders

demanded an audience with President Putin to discuss the implications of the Yukos affair. Putin refused to see them.

Before October was out, the Energy Ministry had announced it was investigating the validity of all Yukos's oil extraction licences and the Prosecutor's Office had frozen 44 per cent of its shares. It was the first time private assets had been seized by the post-Soviet state and it sparked fears that Russia's fledgling free-market economy was in danger of being crushed.

A flood of protests from pro-business, pro-Western figures warned that Moscow was turning back the clock to the old days of Soviet repression. The US Senate passed a unanimous resolution demanding that Russia guarantee Khodorkovsky his full legal rights. The American Ambassador, Sandy Vershbow, said the arrest could 'negatively affect foreign investment in Russia' . . . and bang on cue the country's stockmarket lost one-tenth of its value in one day.

Alarmed by the precipitous loss of confidence in Russia, President Putin appealed for 'an end to the hysteria'. On national television he stressed the Yukos events were not the start of a general shift in policy towards business but merely a criminal case like any other: 'Everyone should be equal before the law', he said, 'irrespective of how many millions they have in their personal or corporate accounts'. It was a message calculated to appeal to the Russian public's dislike of the new rich and it struck such a chord that Putin's popularity ratings soared.

A harder audience to convince were those international investors who were pulling their funds out of Russian stocks in a big way. Putin went on a charm offensive, repeating that he remained committed to the ideals of a market economy and private property rights. The arrest of Khodorkovsky, he said, was not an attack on Yukos; Khodorkovsky had been involved in shady dealings, but the state had no intention of destroying his business. Crucially, he pledged that the Yukos affair would not affect other companies and there was no intention of confiscating or re-nationalizing privatized assets.

Putin's pledge that 'the process of privatization will not be revisited' had a limited impact on the markets. But another blow was delivered the following day, when the President's long-serving chief of staff, Andrei Voloshin, resigned. One of the few surviving members of the liberal Family faction in the Kremlin, Voloshin had been regarded by Khodorkovsky as an important ally at the highest levels of power. His departure was presented by the official media as part of a managed reshuffle by the President who quickly appointed Voloshin's deputy, Dmitry Medvedev, as his new chief of staff. But independent sources claimed Voloshin had resigned in protest over the treatment of Yukos and the Kremlin's change in direction towards a more hardline policy on business and international relations.

The newspaper *Kommersant* said it had information that Voloshin was incensed he had not been informed in advance that Khodorkovsky was going to be arrested and had actually tendered his resignation within hours of the FSB's seizing him in Novosibirsk. The media and financial analysts were united

in seeing his departure as a defeat for the liberals and a signal that the hardline Siloviki were now calling the shots in the Kremlin.

'Assuming Voloshin's departure is confirmed today', wrote the stock advisers, United Financial Group, 'this will only underline the seriousness of the political crisis resulting from Putin's decision to deal with the political problem of Khodorkovsky using KGB methods.'

Similar commentaries on Voloshin's resignation contributed to another 8 per cent fall in the value of the Russian stockmarket. Mikhail Kasyanov did not resign from his post as Prime Minister, but he did express 'grave concern' over the way the matter was being handled.

As we have seen, the view that Voloshin went down fighting for the liberal cause has been challenged by some leading figures in Yukos. Leonid Nevzlin in particular maintains he was secretly working in league with those Kremlin forces who were determined to crush the company, and that his supposed support for Khodorkovsky was little more than a double game of spying and misinformation. In this view of events, Voloshin's resignation and his protestations that he had not been informed in advance about Khodorkovsky's arrest become convenient excuses for why he failed to honour his promise to tip off the Yukos boss about the impending action against him.

The politologist and onetime Kremlin insider Stanislav Belkovsky expounded another theory when I met him in Moscow. According to this scenario, Voloshin was using Yukos as a tool to further his own struggle against the Siloviki and when he lost that battle, Yukos lost out, too:

In my opinion, Khodorkovsky was used as a tool, as an instrument, by Alexander Voloshin, then Kremlin chief of staff, and by Roman Abramovich, the influential businessman standing behind Putin, as he was successful.

Voloshin and Abramovich were very interested in getting Igor Sechin out of the Kremlin. They used Khodorkovsky as a *provocateur* to provoke some scandal around Sechin, to pursue it, so that Sechin would be discredited by Khodorkovsky's arrest. They thought they had found a basis to remove Sechin from the Kremlin.

This game was not well thought out by Voloshin and Abramovich, however, and Khodorkovsky fell victim to Voloshin and Abramovich's mistakes. Mismanagement of the game . . . Sechin won, and that brought Khodorkovsky to gaol.

Voloshin himself has said little about the events of 2003 and he did not respond to requests for an interview for this book. He is currently chairman of the Russian electricity company United Energy Systems and has served as an informal messenger for Putin's Kremlin on trips to the US and elsewhere. For a man who allegedly resigned in an act of protest, he seems to have maintained very good ties with his former boss. And as we will see when we look at the continuing role of Roman Abramovich in the Yukos drama, Voloshin was undoubtedly prepared to participate in the fire-sale scramble for the company's assets.

Trying to stay afloat

The man who replaced Alexander Voloshin as Putin's chief of staff was a young technocrat by the name of Dmitry Medvedev. He had served as Putin's campaign manager in the 2000 elections and been appointed to head the state gas monopoly Gazprom as a reward. When the job offer came from the Kremlin, Medvedev had just turned 38 and was one among many bright prospects in the President's entourage — there was no indication just yet that he would eventually rise to power as Russia's third elected leader.

Medvedev's first act on becoming chief of staff established his reputation as something of a liberal, which stayed with him — rightly or wrongly — until he became President. Far from approving the assault on Yukos, he spoke cautiously against it. He told national television that he thought the freezing of the company's shares could have 'serious repercussions' and said the Russian Prosecutor's Office should weigh up the effect of its actions on the country's interests:

This is a dangerous thing, as the consequences of measures not fully thought out will have an immediate effect on the economy . . . and cause indignation in politics.

Medvedev pointedly questioned whether the freezing of Yukos shares was 'legally effective', giving rise to hopes that the dispute might still be settled amicably. The day after his remarks, Mikhail Khodorkovsky issued an announcement from prison to say he was resigning as head of Yukos, because he wanted to protect the company from any further damage:

I had set myself the goal in the years ahead of building an international energy company — a leader of the world economy. But the situation that has developed today forces me to set aside my plans to continue my personal involvement in Yukos–Sibneft's development. As a manager, I have to do all I can to pull our workforce safely out from under the blows that are being directed at me and my partners. I am leaving the company.

The tone of the statement is calm and unemotional, although it is not difficult to imagine what Khodorkovsky must have been going through as he wrote it in his communal prison cell. At times there is an element of self-justification, as if he were already planning his defence for the court appearances ahead:

We were the first Russian business to consistently implement the principles of financial transparency and socially responsible business behaviour. We introduced international standards of corporate governance. We were able to achieve absolute recognition and

trust on the Russian and global markets . . . Taxes paid by the company to all levels of government will be in excess of \$5 billion this year. Over \$100 million is spent annually on philanthropic programmes.

Unable to resist a rebuke to the Kremlin, Khodorkovsky ends by saying he now plans to devote himself to philanthropy and to 'building in Russia an open and truly democratic society' through his continuing work as chairman of Open Russia. 'Wherever I may work', he concludes, 'I will give my all for my country, my Russia, in whose great future I firmly believe'.

At the same time as resigning as head of Yukos, Khodorkovsky informed his colleagues that he would renounce his stake in the company. His interest in Group Menatep Limited (GML), the holding company that owned the majority stake in Yukos, was transferred to Leonid Nevzlin. Khodorkovsky said he would be happy for his personal fortune to be used to pay off the company's tax arrears and — if possible — to save Yukos from destruction.

Khodorkovsky's resignation was welcomed by the market: Yukos shares jumped 12 per cent in a day, on hopes that the company would now be left alone by the authorities. The move seemed to open the way for Simon Kukes and his team to try to reach an accommodation with the Kremlin. Alexander Temerko, Yukos's Kremlin relations specialist and himself a former senior government official, was given the vital task of conducting the negotiations:

From that moment onwards I really had only one objective. It was to come to an understanding with the authorities, to find a compromise. I believed that it was possible. I believed that there was a way to reach a compromise to get our guys out [of gaol]. That was my task and my duty. Theede's team and Beilin's team were working on the production side of things; their task was to keep the company working and I was responsible for the negotiation process. We were trying to combine and balance all that.

Temerko makes it clear that Khodorkovsky's continuing imprisonment persuaded Yukos to soften its negotiating stance to the point where it was indeed willing to 'hand over' the company. Their main objective became the release of the man he calls 'my friend and comrade in arms'. Temerko strikes me as a sincere person with a strong sense of what is right and wrong. In the context of the negotiations with the Kremlin, he says he may have been a little naïve. His first impulse was to talk to the liberal-leaning Prime Minister, Mikhail Kasyanov, who was a strong supporter of free enterprise and a friend of Yukos:

Kasyanov acted in all honesty because he called us immediately. I came to his dacha, and we discussed the situation. He went to see Putin and promised me that he would call again. He came back and said that Putin had said we should not make everything a bigger deal than it really was . . . that we shouldn't make a fuss.

So Kasyanov was lulled into believing things, too, only by Putin. 'Wait for two weeks, and the Prosecutor's Office will sort it all out. Everything will be clear then.'

And of course nothing was any clearer in two weeks' time . . . other than the fact that Khodorkovsky was going to be inside for another two months.

It was becoming increasingly evident that the driving force behind the Yukos case was the powerful presidential aide and leading Silovik, Igor Sechin. It was a convenient arrangement for Vladimir Putin:

Temerko: Putin gave the management of the affair to Sechin and I was trying to negotiate with him. With Sechin.

Sixsmith: And with Putin?

Temerko: The last time I saw Putin was in 2002. After that he would not meet me. Sechin was Putin's weapon . . . Part of the problem was that we did not have people who could talk with Putin directly. The Yukos affair was one of the few projects that Putin supervised personally. We did try to speak to people from his circle, or at least those people who could approach him.

According to Alexander Temerko, Igor Sechin was acting on behalf of a group of influential ministers and officials who together formed the backbone of the Silovik faction in the Kremlin. Their aim in destroying Yukos was threefold: to strike an ideological blow for re-nationalization; to humiliate the remaining liberals by publicly demonstrating their impotence to stop it; and — very importantly — to satisfy their own personal greed:

Sixsmith: So, there was Sechin . . .

Temerko: Sechin, Ustinov, the Prosecutor General — they're all related: their children are intermarried. Then there was Bukaev, head of the tax administration; Serdyukov, the Minister for taxes and dues. There was a large group of people who were in on this — Kantor, who got our assets at knockdown prices; Bogdanchikov and his team, who got our assets; Pugachev. There is a whole group of people who earned very, very good money out of this. They weren't going to stop there . . .

Sixsmith: And Putin went along with those people?

Temerko: Putin didn't 'go along' with them. He ruthlessly made sure his political competitor [Khodorkovsky] was out of the way, and then he said to his friends, 'OK, take all their property'. He just told them to get on with it.

He knew full well the company's property would remain with the state. It would go to the state and it would increase the value of the state. But he was letting his guys earn nice money on it — it was like: 'Help yourselves, guys'. After all, they've got to earn their money somewhere . . . so that was a perfect place for them to do it.

Putin just left them to it. The assets were not actually for them to own, but they could

do with them whatever they pleased. It was state property, but they could manage it — and get the profits from it. They got the profits! It was all working out so nicely and so well for them, why would they want to refuse it?

I was quite shocked by the rapaciousness Temerko ascribed to the Siloviki. It was hard to believe that leading politicians in an electoral democracy could be allowed to feather their nests so openly and so brazenly. We will return later to the accusations of personal enrichment that have been levelled against Putin and his coterie, including alleged evidence that Putin and Sechin profited directly from the dismembered assets of the Yukos group.

Alexander Temerko says he saw the process at first hand:

These are greedy, miserable little people. In their own city of St Petersburg they were ready to kill each other for a petrol filling station — for the right to own a petrol station, or over the privatization of some hotel or part of the port. Well, here they got a whole company. So, of course, they were absolutely ruthless about it . . .

In retrospect, Temerko believes he and his colleagues were wrong to think they could ever have reached an agreement with the Siloviki. Any hopes they were offered by the Kremlin were designed merely to string them along until plans to dismember Yukos could be completed:

There was a chain of mistakes through which we allowed them to entangle us in these negotiations . . . then during the negotiations they would constantly make it seem as if there was a possible way out and that it could soon be found, that they were considering various options and variants.

They were very cunning. Sechin was always pretending as if, 'I am not running this case, it is really something for the Prosecutor's Office and the Ministry of Internal Affairs and the tax administration. But if you have something to say to us, I will report it to the President. That is, if there are some materials that can be passed on and looked into, I will inform the President. I am ready to do that for you. We will give instructions and an assignment.'

I reported how things stood to Medvedev and he listened to us. But in general, it was like, 'Yes, this document must be considered and discussed with the government.'

But it must be said that under Kasyanov, the government's position was . . . well, I saw very clearly that the government was maybe doing some paperwork — but the decisions were not being made by the government.

It was in the administration of the President that the decisions were being made, without a shadow of a doubt . . . in the Kremlin and the Prosecutor's Office.

The insight into the Kafka-like machinations of Kremlin politics is fascinating. The fact that it comes from someone like Alexander Temerko, a direct participant in the wheeling and dealing, and himself a former senior government official, makes it all the more so.

The importance of the Yukos case was not just the great financial interests at stake, the vast fortunes lost and gained; not just the personal dramas and the lives wasted in the prison camps of Siberia — it was the pivotal role it played in the battle between the liberals and the new hardliners in Russia; it was the test case that demonstrated the annihilation of the former and the apotheosis of the latter.

From Yukos onwards, the country would increasingly turn its back on the Yeltsin years of liberalization and opening to the West; it would see the inexorable rise of nationalist, conservative forces who believed that economic freedoms and individual rights must be subservient to the interests of the state, that America and Western Europe are natural rivals, not natural friends.

Even as he was negotiating with the Kremlin, Temerko was aware of the case's ramifications far beyond the immediate issues of money and freedom. He says there was one crucial moment that could have been grasped — a window of opportunity in which direct action by the people of Russia could possibly have altered the future of the country:

We had an opportunity to take the people out in the streets. I mean a real opportunity to take the people onto the streets. Part of the company's management — Trushin and myself — were all for such a strategy. But there was also another part of the management — Kukes, Beilin — who simply got scared. There were people at the plants who called us, collected signatures from other people, and so on. In the week that followed the arrest, we collected hundreds of signatures from people. People came, the unions' representatives came. We were sure that if we had only called, we would have had at least twenty thousand people who would come to Moscow. The authorities were scared, truly scared of this. We should not have been wasting time negotiating with the tax administration . . .

If there ever was a possibility of making the Yukos affair a *cause célèbre* in defence of liberal, free-market democracy — and I am far from convinced it would have gathered the popular support it needed — then it was missed by an increasingly divided and fractious Yukos management. Disagreements that started in 2003 continue to divide those executives who have managed to stay out of gaol; accusations and counter-accusations of cowardice and treachery are still made and disputed, as if the events in question happened only yesterday. Simon Kukes, brought in to replace Khodorkovsky in October 2003, lasted only a few months as Yukos chief executive. In early 2004 he resigned and was replaced by the American Steven Theede.

Another, much more important departure took place in February.

Appearing on national television, Vladimir Putin announced that he was firing his Prime Minister Mikhail Kasyanov and the whole of his government. Putin said he wanted a clean break with the old administration in advance of the following month's presidential elections.

It was tantamount to saying he wanted a clean break with the liberals in the

Kremlin — after Kasyanov's departure, not a single member of the old 'Family' group remained. The new men of the hardline Siloviki had sealed their triumph . . . and they had used the Yukos affair to do so.

The Abramovich connection

As the state-sponsored judicial process was unfolding against Mikhail Khodorkovsky and his lieutenants, the company they built was continuing to function. The deal to merge Yukos and Roman Abramovich's Sibneft had been finalized with no objection from the Kremlin. However, the ExxonMobil and ChevronTexaco executives had not surprisingly pulled out of the talks on buying into the company — with its founder in gaol, Yukos was no longer an attractive proposition for overseas investors.

From his cell in the Matrosskaya Tishina, Khodorkovsky was able to maintain contact with the Yukos management. He had resigned as chief executive, but Alexander Temerko says he continued to take an active interest in the company's affairs:

How could it be otherwise? He had been the head of the company. Of course we passed information on to him through his lawyers. He was interested in what was happening to the company, especially since my negotiations were directly connected to his possible release. Of course he knew it all.

But Khodorkovsky was powerless to prevent the acrimony that was about to unfold between Yukos and its putative partners in Sibneft. Although the deal had been presented as a merger of the two companies, it was always clear that Yukos was taking over Sibneft and that it was the Yukos management who would run the new entity. To cement this arrangement, Sibneft's owner Roman Abramovich had received a \$3 billion payment from Yukos. But in mid-November, just three weeks after Khodorkovsky's arrest, Abramovich and his second in command Yevgeny Shvidler flew to Tel Aviv to demand a meeting with Leonid Nevzlin.

Nevzlin agreed to sit down with the Sibneft men and was shocked by what they had to say.

According to Nevzlin, Abramovich told him that the only way the Kremlin would allow the merger to continue would be if the roles were reversed — and Sibneft took over Yukos. If the Yukos directors refused, Sibneft would renege on the deal and make an immediate announcement that the merger was off.

Nevzlin was taken aback.

Since the deal's agreed financial arrangements had been built on the merger's being a *de facto* sale of Sibneft to Yukos, Abramovich's demand that he now be given control of the new conglomerate seemed to make no sense.

In retrospect, though, Leonid Nevzlin believes it makes perfect sense: he is convinced that the Kremlin had deliberately allowed the merger to proceed,

including the \$3 billion payment to Abramovich, in the full knowledge that it intended to pull the plug at the last minute. It would then demand that Yukos hand over its assets to Sibneft as the price of releasing Khodorkovsky, and that Abramovich, a Kremlin-friendly oligarch, should get to keep both the company and the \$3 billion. Leonid Nevzlin's assistant, Eric Wolf, says Abramovich and Shvidler told them, 'The only way you can save Khodorkovsky and the company is that you have to give up the management of Yukos to us, and then you can deal with us'.

Nevzlin himself accuses Abramovich of lying about his involvement and notes his close friendship with the Russian President:

Yes, they're close friends. There's no way he could not know what was going on. He was so openly spending time with Putin. And at the same time the campaign was going on to merge Sibneft and Yukos . . .

I think he [Abramovich] was one of the originators of the idea of arresting Khodorkovsky . . . I have specific observations on that score, including his personal zeal . . . For example he told a bunch of people that Putin rang him the day after Khodorkovsky was arrested, which was Abramovich's birthday, the 26th. He said, 'Putin rang me while I was in the shower . . . at 11 in the morning, to wish me a happy birthday . . . and that's when he said Khodorkovsky had been arrested that night' . . . like he hadn't already known!

Then that same day he arrives in London, goes to the Chelsea stadium where there's a match on . . . and he's all happy, singing Kalinka in front of the cameras. I don't trust him at all. He was involved in the Yukos case right up to his neck.

Nevzlin's allegations against Abramovich are difficult to verify and other participants in the drama have different interpretations of his actions. In order to get his side of the story, I asked on several occasions for an interview with Roman Abramovich, but all my requests were turned down.

Abramovich left the Tel Aviv meeting with a flea in his ear and his proposal turned down flat. Nevzlin says he almost certainly went straight back to report to the Kremlin, where he was a longstanding intimate of Putin and his coterie:

They all believe the country should be run from the top by a clique of individuals, in which — naturally — a leading position is taken by money bags Abramovich! That's what has changed things so dramatically in Russia . . . that's why it has started to revert to its past . . .

Spooked by Abramovich's approach and worried about the Kremlin's next move, the Yukos bosses decided to leak the story to the media. On 1 December, the Reuters news agency ran a despatch based on information from 'a Yukos source':

Reuters. Moscow. 1/12/03. Embattled Russian oil firm Yukos and its shareholders have rejected a demand from junior merger partner Sibneft for management control of the combined firm, a Yukos source said.

‘They said that unless we agreed to the management changes they would break the deal. We said we would not accept such a proposal, and would await their letter,’ the source told Reuters on Sunday.

Sibneft’s core shareholders, led by the owner of London’s Chelsea soccer club Roman Abramovich, have already been paid \$3 billion plus an \$8 billion 26 percent stake in the combined group for their 92 percent shareholding in Sibneft.

But the Sibneft camp has now suspended the deal. Sources on both sides of the dispute have said that Sibneft’s president Yevgeny Shvidler now wants to be chief executive of the merged entity Yukos–Sibneft.

The Reuters report also contained a revelation that might possibly support Nevzlin’s suspicions about Abramovich conniving with the Kremlin: a key figure in Abramovich’s team bidding to take over Yukos, it transpired, was Alexander Voloshin, Putin’s chief of staff who had resigned from the Kremlin just thirty-two days earlier:

The Sibneft camp also want to install Alexander Voloshin, a former Kremlin chief of staff and a businessman, as chairman. The Yukos source described how Shvidler called a private high-level meeting on Friday where a delegation of Yukos shareholders, executives and lawyers went to Sibneft’s Moscow office. The Yukos source said that Voloshin was sitting beside Shvidler when the Yukos team arrived, and that together the two men delivered the ultimatum on management changes. The Yukos source said Voloshin . . . took a ‘very active part in the meeting.’ According to the Yukos source, Shvidler and Voloshin told the Yukos delegation that its management lacked a ‘political roof’ to protect them from the whims of senior bureaucrats.

The implications of that last remark hardly need amplifying: being subjected to ‘the whims of senior bureaucrats’ is a nice euphemism for being crushed by the Kremlin. Somewhat delicately, the Reuters report concludes:

Analysts are divided about whether Abramovich was pressured into Friday’s merger suspension by a Kremlin keen to pile the agony onto Khodorkovsky. Sibneft said its move to suspend the merger was business related, and had nothing to do with politics. Yukos declined comment.

Voloshin’s involvement in the Abramovich bid to grab Yukos has prompted several observers to cast doubt on his motives for resigning from his Kremlin job: if he really did resign in angry protest at Khodorkovsky’s arrest, how could he now be joining in predatory efforts to dismantle Yukos? And — even more pertinently — was he in league with Abramovich all along?

This theory would mean that Abramovich, Voloshin and Putin deliberately

set a trap for Khodorkovsky from the minute Abramovich approached him about a merger back in March; that Putin's blessing of the merger when he met Khodorkovsky in April was also a sham; and that they all knew from the outset that they would end by arresting Khodorkovsky and giving Yukos to Abramovich and Voloshin. It is a version of events that is strongly backed by Leonid Nevzlin.

As always, though, there are alternative explanations.

Friends of Roman Abramovich maintain it was Nevzlin himself who offered to hand over control of Yukos–Sibneft, if only Abramovich would use his influence in the Kremlin to get Khodorkovsky released. In this version of events, Abramovich supposedly replied he could not do so and the affair subsequently descended into acrimony. Nevzlin rejects this account, and the timeline of events does not seem to bear it out.

But there is a third theory that does bear scrutiny.

Under this scenario, there was no conspiracy between Abramovich and the Kremlin, and Abramovich was merely acting like the shrewd businessman he is when he moved in to try and gobble up the remains of Yukos. One person well placed to judge — because he was personally leading the negotiations over the company's future — is Alexander Temerko.

He told me he believed, and still believes, that Abramovich was acting in good faith:

I will tell you that many people really wanted to help us and really tried to help us.

And I think it would have been a genuinely good thing if the management of the company had been given over to the guys from Sibneft.

I discussed all that with Roman and with Shvidler, as well as with Voloshin and Yumashev.

I can tell you — generally speaking — that some understanding, some agreement was very close to being reached.

I knew that they [Abramovich and Voloshin] had a great political position and influence. And on the whole, they shared our values at that moment in time.

Temerko says he backed the Abramovich plan because his main aim — his sole aim — in all the negotiations was to get his friend Khodorkovsky out of gaol. If they could have done the deal to give the company to Abramovich, he believes they might have got him released:

Temerko: Those guys [Abramovich and Shvidler] were indeed ready to come and help us out. I think if they had come in with us then, part of the company could have been saved.

Sixsmith: And Khodorkovsky would have been released?

Temerko: I can't say for sure, but I think it would have been one step closer to his

freedom. I am not sure if he would have been released, but that way at least we would have had people on our side who could talk to Putin directly.

Sixsmith: Including Abramovich? He could talk to him.

Temerko: Abramovich had to be given a good reason, an incentive for doing that. In my opinion, which may be a very subjective one, Abramovich is an injured party here, just as we are, only to a much smaller extent. He, too, was in a sort of limbo for a long time. Many of their people were interrogated. Some of their people had to leave the country.

I do believe that it was a hard decision for them to help us. Not everybody there wanted to lead Yukos after Khodorkovsky's arrest. But the team that came — Korsik, Shvidler — it seemed to me that we, Trushin and I, would be able to work well together with them. Especially since those people, as far as I understand it, kept their promises. Certain things that we were agreeing on were done by them despite the risks that they faced.

Temerko believes that the deal to give Yukos to Abramovich, and to try to get Khodorkovsky out of gaol in return, was scuppered by Nevzlin:

Temerko: Unfortunately, Nevzlin — who remained free — had a different point of view on this. When I met with him and we were discussing the idea, my impression was that he agreed to it. Maybe at that precise moment he did agree . . . but later on other interests prevailed. I don't know exactly.

I was deeply hurt by all that. I thought we had agreed on something, and then later everything changed and he did not even warn anybody or let anybody know, not even me.

I guess if that was how it was more convenient for him, he acted in that way, naturally . . . Maybe what I am saying will not be to Nevzlin's liking. He has another point of view about this matter.

Sixsmith: He thinks it was a trap that was set by Putin and Abramovich.

Temerko: Yes. He thinks it was a trap from the very start. But then again, if he thinks so, he did have opportunities to prevent that trap. Personally I think there was no trap.

The former Kremlin insider Stanislav Belkovsky told me Abramovich is extremely close to the Kremlin; but Belkovsky does not believe he connived to destroy Khodorkovsky:

Belkovsky: Yeltsin and Abramovich personally picked out Vladimir Putin as an optimum successor [as President] because Putin and Abramovich are psychologically and mentally brothers. Putin proved quite reliable for them. He never violated any of his obligations toward Yeltsin's family nor Roman Abramovich personally . . . We know Putin and Abramovich are partners and friends.

Sixsmith: So do you think Abramovich was collaborating with the Kremlin over the destruction of Yukos?

Belkovsky: No. I do not think Abramovich was interested in destroying Khodorkovsky's business empire. Certainly Abramovich has never been so close to Vladimir Putin, but no damage could be generated to him by any of Khodorkovsky's problems. I do not suspect Abramovich of standing directly behind Khodorkovsky's problems, but indirectly, of course, Abramovich is pertinent to what happened to Khodorkovsky.

As for Khodorkovsky himself, I understand that he does not believe Abramovich was part of the plot to destroy him. From his gaol cell he was kept informed of developments in the Yukos–Sibneft merger and was initially hopeful that the Kremlin's approval of the deal would work in his favour: if the President wanted the creation of his 'national champion' in the oil market to go ahead, he would surely want the man who created it to be free to run it . . . But his optimism faltered when Abramovich launched his bid to take over the new company. According to Bruce Misamore, who was closely involved in the negotiations, Khodorkovsky was furious at the thought of his empire falling into the hands of his rivals:

They wanted to install Shvidler as the CEO of Yukos! They basically went to Khodorkovsky in gaol and Khodorkovsky said, 'No way in hell!' When it was proposed to Khodorkovsky in gaol that Shvidler would take over the company, Khodorkovsky said, 'No way in hell! Forget that deal; we will do it some other way!'

I understand from other sources that Khodorkovsky had a personal dislike of Shvidler and that he originally agreed to have him on the board of the new Yukos–Sibneft solely in order to finalize the acquisition. It seems his opposition to the proposal to give the company to Abramovich was therefore motivated more by his dislike of Shvidler than by any mistrust of Abramovich himself. And it must have been a very deep-seated dislike indeed, because rejecting the Sibneft takeover effectively meant rejecting a possible means to secure his own release.

Khodorkovsky has made it clear through intermediaries that he regards Abramovich as a sharp businessman but not a Kremlin stooge or a plotter against him. Bruce Misamore agrees:

Misamore: I do not believe that Abramovich was behind the fall of Yukos. Abramovich was absolutely behind the undoing of the Yukos–Sibneft merger — totally illegally, through his connections in the Kremlin. And also having his lawyers file a case in Chukotka where he told the judges how they were going to rule because he ruled Chukotka.

Sixsmith: He was the Governor there.

Misamore: Yes. He told the judges what to do, which is the Kremlin way of doing things. That is how it works in Russia; there is no rule of law and there is no independent judiciary. The judges are appointed and they serve at the pleasure of the Governors and the Kremlin. Anyhow, I do not believe Abramovich was behind it [the destruction of Yukos] at all. But I do believe that as soon as it happened, Abramovich was in there trying to preserve his own interests. He could see the value of Yukos, the 26 per cent he owned, potentially going down the tubes so he was in there right away.

Sixsmith: Essentially, he kept Sibneft and he kept the \$3 billion . . .

Misamore: Until a few months ago, and then he paid it back in a very circuitous manner with no interest.

Sixsmith: So he did well financially out of it, but he was not a Kremlin plotter . . . ?

Misamore: He did extremely well. Later on there are rumours that in order to sell Sibneft to Gazprom he had to pay away as much as 60–70 per cent of the proceeds that he received for favours in the government including, I am sure, from Mr Putin. There were those rumours; I do not know whether they are true or not.

After withdrawing from the merger with Yukos, Abramovich took Sibneft to market again in September 2005. He found a willing buyer in the state's natural gas monopoly Gazprom and realized over \$13 billion in cash for his part of the company. The Kremlin had succeeded in bringing Russia's oil back under state control, and Abramovich had become fabulously rich: the price he paid for Sibneft in 1995 was just \$100 million. He is still very much *persona grata* in Russia and has maintained very close ties to the Kremlin. Despite several requests, he refused to discuss his role in the events this book describes.

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The Kremlin explains

By early 2004, the Yukos managers were beginning to feel that the Kremlin was toying with them. Despite months of negotiations and increasingly conciliatory offers by the company, its boss had been kept firmly under lock and key. A court ruling turning down yet another application for bail had described Khodorkovsky, somewhat melodramatically, as ‘a public danger’. The charges of tax evasion and demands for arrears which had begun at \$3.5 billion had now escalated to \$5 billion. Yukos had been negotiating in good faith to meet the state’s requirements — they had agreed to pay \$1 billion, then \$2 billion — but it seemed that every time they offered to meet a tax demand, the Prosecutor simply thought of a higher number.

While keeping the company constantly wrapped up in detailed negotiations over the tax charges, the Kremlin would repeatedly dangle the carrot of an agreement only to snatch it away when it was on the point of being signed. It was a cruel experience for Yukos, but it was working wonders for Vladimir Putin. Buoyed by popular support for his stand against the oligarchs, his United Russia Party won the lion’s share of the votes in the parliamentary elections and he himself was swept back to power for a second term in the presidential elections.

With hindsight, it is easy to conclude that the Kremlin was deliberately inflicting the death of a thousand cuts on Khodorkovsky’s upstart empire. In fact, I suspect there was no master plan worked out in advance and that the dismantling of Yukos progressed piecemeal from one confiscation to the next.

With the liberals removed from the scene, it is unlikely that internal political disagreements were slowing down the process. Alexander Temerko believes Putin himself may not have favoured the complete destruction of the company because of the negative impact on business confidence, but that he was pushed to take one step after another by the implacable Siloviki:

I am absolutely convinced that when Putin began the attack on us, he did not know how far he was going to go with it. I think at some point in time he would have stopped it, maybe, but the people that surrounded him, his people already had the smell of money! They sensed that the money was near, within reach. They saw that they would have the biggest and most delicious piece of the pie of the Russian economy.

So far, we have followed the progress of the assault on Khodorkovsky and Yukos; we have mapped the sequence of events that led to his arrest and the slow neutering of his business; and we have heard in some detail the inside story from Yukos and Menatep.

But there is another inside story — that of the Kremlin.

Access to this version of events is inevitably limited. The art of Kremlinology has grown up precisely because the players behind the crenellated brick walls neither voluntarily come before the public to explain themselves, nor submit themselves willingly to journalists' questioning. But having heard the story from Khodorkovsky's side, I had to hear it from the other side, too.

And the only place to learn *why* Khodorkovsky was arrested and *why* his empire was taken from him was in the Kremlin itself . . .

On a wintry Friday evening in 2008 I am walking through Red Square towards the clock tower of the famous Spassky Gate for an appointment with one of President Putin's closest aides. In the 1970s when I was a student in Russia and in the 1980s and 1990s when I was the BBC Moscow correspondent, Red Square was a hallowed place: you raised your voice or moved any faster than a funeral shuffle at your peril — offenders were rebuked by the omnipresent militiamen protecting the sanctity of Communism's holiest shrine. In his marble mausoleum where Red Square meets the Kremlin wall, Vladimir Lenin lay in eternal, dreamless sleep and Russia was motivated by ideological faith bordering on religious piety.

Now, though, the country moves to a different beat.

As I approach, I am shocked to find that Red Square is reverberating to trashy sub-Western rock music pumped at full volume from the loudspeakers of a gaudy commercial skating rink. Where people once stood reverently in line to visit Vladimir Ilich, they are now queuing for candy-floss and toffee apples. Blaring commercialism and greed worse than anything in the West have replaced ideology and faith as Russia's driver. Lenin will get no sleep tonight . . .

Through the Kremlin identity checks and the three circles of security, I find myself ushered into an office on the third floor of the building that houses the presidential administration. Dmitry Peskov, the man I am due to meet, has been delayed on a trip out of town with the President so I have time to look around. The office is panelled in brown wood with parquet floors and a long row of windows looking out over the Kremlin ramparts to Red Square beyond. Despite the antiquated double-glazing, the rock music from the skating rink is irritatingly audible: I begin to wonder how Russia's rulers can concentrate on the business of running the country.

Peskov's office is spacious — a conference table with fourteen chairs and a vast desk covered in papers stand beneath a full-size Russian flag and a map of the world covering a whole wall. This is clearly a man who enjoys the confidence of the President and the perks of his responsible position. After twenty minutes of listening to Russia's version of Deep Purple and Led Zeppelin (I wonder if they're trying to please Dmitry Medvedev in his office down the corridor?), I am relieved when my host rushes in, coat covered in fresh snow and full of apologies for the late arrival.

Dmitry Peskov is a sprightly man in his early forties, a career diplomat who became close to Putin from the moment he was first elected, impressing the

President with his energy, intelligence and knowledge of the world. Putin takes him with him wherever he goes.

Smiling, sophisticated and civilized, Peskov is so far removed from the bullying, stonewalling Kremlin officials I was used to in the 1980s and 1990s that I find it hard to believe he could defend the deliberate destruction of Russia's most productive, efficient and transparent company. Peskov has the grace to concede that Yukos was indeed a success, but he says there were good reasons to attack it:

You are completely right in saying that Yukos was really a very good company, very promising and a very good company. But if you ask yourself how they managed to make this company, in a very short period of time, such a wealthy company, becoming the owner of vast sources of energy, being an owner of enormous assets, then the answer turns out to be very clear: by not paying taxes you get an advantage in comparison with other companies, you get an advantage over the competition, so *illegally* you become the owner of a chance to become rich and to become developed faster than the others. It was the verdict of the court: [Khodorkovsky] was convicted for evading taxes and other crimes.

I am willing to concede that Peskov's answer may be factually correct, but he and I both know it is an over-simplification of a very complex period in Russia's economic development, and that the charges against Khodorkovsky were far from clear cut:

Sixsmith: You said Yukos wasn't paying taxes, that it was using roundabout methods to generate an unfair advantage, but isn't it true that lots of companies in those years were doing that? So why did you only pick on Yukos? *Lots* of the big corporations weren't paying taxes in those days but you didn't pick on them.

Peskov: Certainly, yes. Certainly, yes. Because there was some research that was done into tax payments of different oil companies of this country, and they made some comparisons between the periods *before* the trial of Khodorkovsky and *after* the trial of Khodorkovsky . . . and after the trial of Khodorkovsky a very significant rise in taxes was witnessed. Ha, ha, ha! This is obvious . . .

Peskov's laugh is jolly, but it is the laugh of a man who believes the ends justified the means. If you want to bring the playground into line, the obvious tactic is to make an example of the biggest, strongest child in it — the rest will soon get the message:

[Choosing Yukos] was the business of the investigators and it is an issue of the scale of violations of the law: you can adopt and you can apply some schemes of optimizing of taxation that are quite legal — and that is being done by every company in the market — but if you are doing it on an unbelievably large scale and if you are doing

it in a way that contradicts the existing laws, then of course you will be subject to investigation.

Again I can see what Peskov means, but I feel he has not answered my question: if everyone was avoiding taxes in the 1990s, did they have another, separate reason for picking on Mikhail Khodorkovsky? Peskov concedes that they did:

Peskov: Of course. I am not speaking about, let's say, obvious political ambitions of Mr Khodorkovsky and about the obvious desire of Mr Khodorkovsky to use his fortune to influence the political life of this country. So what do you call businessmen who are trying to use their business and their fortune to influence politics in their country? They are being called oligarchs and, actually, one of the main purposes of all the reforms of Putin is to get rid of oligarchs . . . and to crush the roots of the oligarch system.

Sixsmith: But Khodorkovsky had the right to stand for the presidency, didn't he? He's a citizen like everybody else. Did he do anything wrong?

Peskov: Well, if you just look at the press of our country, you will see lots of material of that period, you will see lots of material about suspicions of his being involved in criminal activities in order illegally to get access to certain energy sources, in illegal activities in trying to influence the parliament of this country in order to lobby for this or that drafts of laws that will ensure his privileged positions, and so on and so forth. I am not a prosecutor, but let's say attempts of interfering in political life, as a businessman not as a politician . . .

Sixsmith: So he was 'interfering in the life of the country' . . . ?

Peskov: Of course. We know that lots of people who used to be members of big business in their country are diving into the ocean of politics, but they are not doing it as active businessmen. So it is a very big difference. And in case like it was done by Khodorkovsky . . . the whole story stinks!

Peskov has been urbane and restrained in his answers to my questions, but the issue of Khodorkovsky's political ambitions has sparked a palpable flash of anger. Another Kremlin source — who spoke on condition of anonymity — told me it was by far the most painful point for them and that many in the administration 'frothed at the mouth' when talking about Khodorkovsky's efforts to 'buy up the Duma'. So there is little doubt that the Kremlin considered the Yukos boss to be a political opponent worth worrying about.

Nonetheless, I was still not clear if political ambition was the real, or sole, reason behind the Kremlin's campaign to destroy Khodorkovsky. The allegation that the Siloviki saw Yukos as a lucrative prize and were primarily motivated by the prospect of vast personal enrichment has figured large in many of the explanations I have heard from the Yukos side.

But before putting such a sensitive accusation to the Kremlin's spokesman, I knew I needed facts and figures to back it up. So the day before my meeting with Dmitry Peskov, I went to another part of Moscow to talk with someone who should know. Stanislav Belkovsky was for many years a close associate of the Siloviki, including Igor Sechin, and was widely considered their public mouthpiece. For reasons which have never been explained, Belkovsky fell out with the Kremlin hardliners and has recently revealed some of the secrets they would no doubt prefer to have kept to themselves. He told me he had evidence that Vladimir Putin has acquired fabulous personal wealth:

I have been dealing with this question for two and a half years, so it is not a new topic for me. I estimate the assets controlled effectively by Vladimir Putin at the level of at least \$40 billion. That includes 37.5 per cent of Surgutneftegaz oil company, 4.5 per cent of Gazprom and also the oil trader Gunvor, an offshore company which has been infamous for the past eight years in Russia. It is a basic trader of oil and metals. It was unknown just nine years ago, and is connected with one of Putin's closest friends and business partners, Gennady Timchenko. So I can imagine the assets under Putin's control might be larger than I know, but they are at least \$40 billion . . . There are hundreds of people inside the Russian élite who can confirm the figures and tell you much more about Putin's business — things that I know, but that I cannot tell you.

Surgutneftegaz is a pro-Kremlin oil company that benefited from Yukos's demise, and Gunvor took over the distribution of virtually all of Yukos's oil. Belkovsky says that after Yukos's liquidation, the benefits — and the profits — from controlling these assets have accrued directly to Vladimir Putin:

Belkovsky: It is not a secret that the nominee shareholder of 50 per cent of Gunvor's stock is Gennady Timchenko, one of the closest of Vladimir Putin's friends. Simply, I believe that they have this friendship and that the desire of Vladimir Putin to build up his personal business empire made Gunvor one of the key traders. A lot of Russian corporations regard Gunvor as a sign of the partnership between Putin and Timchenko as top Kremlin figures. That is the story of the fantastic business growth of Gunvor, which was just a small offshore company nine years ago before Vladimir Putin came to the Kremlin.

Sixsmith: Gunvor essentially distributes a lot of the oil which used to be owned by Yukos. So the Yukos executives have told me their assets were stolen by the Kremlin. In fact by Kremlin oligarchs, like Timchenko, Putin and Sechin. Is that how you see it?

Belkovsky: Yes. Sure. Russian privatization in the 1990s was a big theft. But there is no essential difference between Khodorkovsky in the 1990s and Timchenko and Sechin in this decade. And that is despite all those myths about Khodorkovsky being the most transparent and the only honest businessman. (I regret his destiny very much, by the way, and I hope Khodorkovsky will be out of gaol and will join those who think of

Russia's future and not only about their own fortunes.) So, certainly the end of Yukos was a typical 're-privatization' act, typical in modern Russia, when the strongest devour the property of the more feeble. Now Gunvor is just a tool to accumulate cash for Putin, Timchenko, Sechin and those people. It is to accumulate cash . . . Gunvor is a brilliant mechanism with \$8 billion of profits every year, which is a substantial, enormous figure. They could never disclose their possession of property or stocks or their control, because this . . . could attract excessive attention from Western judges and prosecutors at any moment, so they have Gunvor as one place where they can accumulate money somewhere more protected from their point of view.

It was this ammunition that I took with me to my interview in the Kremlin. But even with detailed facts and figures from a former insider, it is not easy to accuse the President of Russia of massive theft in the heart of his own seat of power. It was with some trepidation that I raised the issue with his friend and aide:

Sixsmith: Let me ask you about one criticism of President Putin, and that is that he has enriched himself very, very considerably from Yukos: the figure of \$40 billion has been quoted. And not only Mr Putin but those around him, like Mr Sechin and Mr Ivanov.

Peskov: This is not correct. The answer is very simple — all these rumours, I repeat, are not criticism; they are the speculation of evil minds! They have nothing to do with reality; it is just a bald attempt, and a powerless attempt, to blacken Mr Putin, to paint him a black colour! I repeat, this is nonsense, and again, this is completely unacceptable!

Sixsmith: But it was Stanislav Belkovsky who gave me these figures and he was a man who was always seen as very close to Mr Putin and to the Siloviki.

Peskov: What figures did he tell you about?

Sixsmith: Belkovsky said \$40 billion.

Peskov: \$40 billion! Hah! He could have said \$80 billion!

Sixsmith: Hmm. One specific allegation is about the company Gunvor, which now distributes the oil from the Yukos installations. Belkovsky says it is owned by Gennady Timchenko, that Mr Putin has a 50 per cent shareholding in that company and that he is reaping something like \$4 billion a year from it. Is that correct?

Peskov: I have heard the name of this company and I've read that one of the owners of the company is Mr Timchenko, but I know that not a single share of that company belongs to President Putin. So this is not true!

Sixsmith: Just to be quite clear, then, it is an untrue allegation that the Siloviki have profited from the destruction of Yukos?

Peskov: Yes.

Sixsmith: There is no truth in the suggestion?

Peskov: One hundred per cent no truth.

Since the destruction of Yukos and the departure of Kasyanov, Voloshin and Illarionov, the Siloviki now rule the roost in the Kremlin. Many of them share Vladimir Putin's own background in the special services of the KGB, and their triumph in the battle against the liberals in the Kremlin bears the hallmark of that organization's ruthless efficiency. Dmitry Peskov, though, is at pains to ease Western fears about the Siloviki:

First of all, these are people who used to work in the special services and the majority of them are very talented and very skilful people. They are just people like us — ha, ha, ha! They are not aliens — ha, ha, ha! And as a matter of fact, Mr Putin is a liberal himself. Do not mix up his policies aimed at restoring order in the country with opposition to the ideas of liberalism. On the contrary, he *is* liberal, and I think the fact that foreign investments amounting to more than \$40 billion annually is flowing into this country shows that this country is liberal. Lots of critics in politics are writing that Putin is something close to a dictator of this country. But not a penny from abroad would come to a dictator!

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Fight or flight

By mid-2004, the battle for the future direction of Russian politics had been so conclusively resolved that the Siloviki felt themselves unassailable. Vladimir Putin had been convincingly re-elected and had the power base he needed to jettison the liberal economic policies he had once espoused. In their place came a firm commitment to new statist values and a redoubled onslaught on the stricken Yukos. The company's interim CEO Simon Kukes had seen the writing on the wall and resigned, leaving the three Texas oilmen — Steven Theede, Bruce Misamore and Dave Godfrey — to try to steady the ship. Misamore says they were initially optimistic they could keep Yukos afloat:

Well, the equity value of the company fell after Khodorkovsky's arrest, but by February 2004 it got up to where it had been before . . . We did not know at that time that it was the Kremlin's goal to destroy the company. In fact, our thrust became fighting the tax assessments because we thought they were totally incorrect; I still absolutely believe that they were totally incorrect. We had done everything properly. They [the Kremlin] went back and did a retroactive reinterpretation of their tax laws. Not only that, they selectively applied it to Yukos. They retroactively reinterpreted their tax laws and then they selectively applied it to Yukos.

The claims of retroactive application (the alleged offences were not illegal at the time they were committed) and selective application of the law (other companies had behaved in the same way but were not prosecuted) would eventually form the basis of Yukos's long-running fight to prove the case against it was politically motivated. But Misamore says the Kremlin deliberately kept its intentions hidden:

[At first] we thought that if we paid the money, they would maybe go away. Particularly after they convicted Khodorkovsky, we thought they would cease trying to destroy the company. Therefore, our focus was on negotiating a settlement. In fact, we used many different ways to try to access the right people in the Kremlin to negotiate a settlement.

They would lead us on . . . and we would think that we were very close to a settlement, but then someone would meet Putin and the whole thing would get dropped.

That is why I absolutely 100 per cent believe that every major action in the destruction of Yukos was directed or personally approved by Mr Vladimir Putin. He did not do the day-to-day work — Sechin did the dirty work and the tax ministry was instructed to do the dirty work — but Putin was behind every major action.

Once we got close to a solution with other parties in the Kremlin, I believe that when

they took it to Putin on the weekends or whatever he was the one who said, 'No, we are going to destroy this company; no deals.'

They were playing cat and mouse. They would come back with another demand. They would do another year's audit. They would make another demand or they would say this was not good enough.

As the tax bills rose higher and higher, the Americans saw a series of offers to negotiate an amicable settlement rebuffed. When the alleged total of unpaid taxes reached an eye-watering \$6.7 billion, the authorities announced they were seizing Yuganskneftegaz. The Siberian operation was Yukos's prime extraction facility, accounting for 10 per cent of Russia's national oil production and representing the lion's share of Yukos's physical assets. The Kremlin announced that it intended to auction off Yuganskneftegaz to pay Yukos's tax debts. Knowing this would be a disaster for the company and would almost certainly bring Yukos to its knees, Misamore and his fellow directors unilaterally decided to make a dramatic gambit: they offered to hand over the whole company — lock, stock and every Yukos barrel of oil — to the Kremlin:

It got to the point where our final offer was somewhere in the range of \$20 billion cash over a period of time, and the Menatep Group would give up its ownership of Yukos and just hand it to the government . . . But they would not take it! The offer was made directly to Mr Sechin and we had been negotiating directly with Mr Sechin. That offer was made days before the auction of Yuganskneftegaz was announced. All of a sudden, Mr Sechin went silent.

The Yukos board was astonished and mystified. Even the surrender of the whole company, it seemed, would not keep the Kremlin happy. It was not until the auction of Yuganskneftegaz that things became a little clearer. Forcing its auction on the open market, rather than simply nationalizing the whole company, was a deliberate act of cunning by the authorities: they were opening the way for another buyer to snap up a very valuable piece of the industry at a knockdown fire-sale price.

The reaction of Misamore and his fellow directors was to try to block the sell-off of Yukos assets by filing for bankruptcy in a court in Houston, Texas. But the Kremlin took no notice. Four days after the bankruptcy claim, the auction for Yuganskneftegaz went ahead, and it turned out to be just as blatantly rigged as Yeltsin's notorious privatization auctions had been in the 1990s.

By a series of devious manoeuvres, bidders in the auction were restricted to just two firms, one of which was a completely unknown outfit by the name of Baikalfinans. No one had heard of them; they had no previous record of financial transactions and their registered headquarters seemed to be a vodka bar in the provincial town of Tver. Astoundingly, Baikalfinans produced the winning bid: the other supposed contender, the state gas monopoly Gazprom, simply failed to make a counterbid. Baikalfinans became the owner of Yukos's crown

jewels for \$9.3 billion — money that went immediately into the state's coffers as part payment towards Yukos's alleged 'tax arrears'.

Since Baikalfinans had no assets of its own, other than hastily arranged loans from the state-owned Sberbank and Vneshekonombank, it became clear that it was acting as a front for someone else. The whole charade was explained a few days later, when the state oil company Rosneft announced it had bought Yuganskneftegaz from Baikalfinans for an undisclosed price. And by happy coincidence, the man who controlled Rosneft was . . . Igor Sechin.

Vladimir Putin defended the move, saying it brought to an end the era of 'cowboy capitalism', the time when oligarchs like Khodorkovsky obtained state industries for knockdown prices at rigged auctions. Unlike those auctions of the 1990s, Putin claimed with no hint of irony, the Yuganskneftegaz sale was a model of probity: 'Now the state, using proper market methods, is safeguarding its interests. I think this is quite normal.'

But Bruce Misamore took a very different view.

He says the Kremlin's aim was to transfer Yukos's assets to the control of its own people. To do so, they were deliberately keeping Yukos alive while slowly draining every drop of blood out of it:

Technically, they had not frozen our bank accounts, but they had imposed collection orders on us so that every dollar that came into our bank account went straight to the government . . . and the bailiffs were taking it!

They were even taking money out of bank accounts where Yukos was acting as a collection agent for its subsidiaries, primarily Yuganskneftegaz. They took more than \$2 billion out of the collection agency accounts, which was not Yukos's money. They got orders that allowed them to take all that money, too.

To pump up the amount of the claim in the bankruptcy, Yuganskneftegaz claimed all that money as a receivable but it had already been stolen by its parent company, which was now the Russian government! We were paying double!

And since they were taking all this money from our accounts, we had to fund our operations from money that we had offshore . . . Eventually, nearly all the money that we had offshore had to go to pay the salaries of our workers so they wouldn't starve to death.

What they were trying to do was starve our subsidiaries of cash so they couldn't meet their production licence obligations . . . and then they could take the licences back!

When the Yukos directors tried to protest about the Kremlin's actions, they found themselves subjected to personal threats from the authorities. Alexander Temerko says the Prosecutor's Office put pressure on individual Yukos managers to incriminate their superiors. When he asked the employees to invoke their right to silence — and hired lawyers to advise them — he was himself targeted by the police:

What happened next? The situation was developing very rapidly. The Prosecutor's

Office began saying that Yukos's management were hampering the investigation. The President drew up a list of the managers, and all the managers that were 'in the way' and were hampering the investigation were to be sent to prison.

That was how the persecution began — persecution of the management and persecution against everyone involved. It was October 2004, October or November. And it only took them two weeks to get rid of all of us there. The searches began, and interrogations. Our offices, homes and cars were searched.

Bruce Misamore, too, was told he was personally under investigation by the Prosecutor's Office. He vowed he would not give in to the pressure. He did, though, take precautions in case of a threat to his life:

Things were pretty rocky, particularly once they announced the auction of Yuganskneftegaz and we knew the government would never engage in any kind of settlement with us. I actually started preparing. I owned an apartment in Moscow; my wife and I started talking about it and we decided to pack up all of our artwork, oriental rugs and anything of value ready for shipment back to the US. We took it out of our apartment, so we did not have all of our paintings and everything else we had acquired in Russia in the apartment any more. It was all packed up and ready to go with a moving company. This was in October or November 2004, when we thought things were starting to get pretty shaky. We also made arrangements with the moving company that on a moment's notice — and the moving company had a key to our apartment — we could leave the country quickly. We had already made all those preparations . . . Mr Temerko had to flee [first] because he was the one negotiating directly with Mr Sechin. Mr Temerko had to flee because he was threatened when they announced the auction of Yuganskneftegaz . . .

Alexander Temerko was in a particularly exposed position. His negotiations with the Kremlin had put him back into direct contact with many of the people he had worked with during his time as a senior government official . . . and they had not been impressed by his obstinate insistence on the company's legal rights:

Temerko: I was warned at the Kremlin. They told me: 'Tell them [the Yukos management] that this is not your war and step aside. Otherwise, you have three alternatives. Either you say it is not your war and step aside, and then you can live quietly. Or get out and go to London, where the rest of your people are. Or you can join your friend in Lefortovo Prison.' And I naturally . . .

Sixsmith: Not much of a choice really . . .

Temerko: No. Between the two places — London and Lefortovo — I was highly likely to choose London!

Sixsmith: How did they warn you? Did they ring you?

Temerko: No. They invited me to come in. Because it was a different kind of relationship that we had. I knew them all, of course. I had known them for a long time, and I knew them all well. They knew me too, which was why they invited me to come in.

They told me I was getting in the way — there were people who were getting annoyed at me because of my activities. They said, ‘You are complaining to all these people, and they go to the President. All this is causing irritation and annoyance. The President is taking it out on Sechin. Can’t you see that the time for all that is over now? Can’t you see that the negotiations are over now?’

On the whole, Nevzlin was right there, about the negotiations being a trap for us. That was one thing he was right about.

The day before Temerko was called in to the Kremlin, Bruce Misamore had flown to London on a business trip. He says he was anxious as he boarded the plane because he was leaving his wife behind him in Moscow:

I came here to London, I believe, on 22 November for a meeting. On 23 November, I was staying in this very hotel where we are right now. It might have been a floor up. It might have been this room . . . I got a phone call. It was a message that was being relayed to me from Alexander Temerko back in Moscow. The message was, ‘Do not go back to Russia; you are going to be arrested when you arrive in Moscow’. I cancelled my plans to return. I got on the phone to my wife right away and said, ‘Get the hell out of Russia!’

Misamore never returned to Moscow. Temerko took the next plane to London, where he still lives and works. Both of them, along with Steven Theede, Dave Godfrey, Yuri Beilin and the other Yukos directors, have been charged in their absence by the Russian Prosecutor with embezzling billions of dollars and international arrest warrants have been issued against them. They all strenuously deny the charges.

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Khodorkovsky shunned

Throughout 2004, the Russian judicial machine had been building its case against Mikhail Khodorkovsky and Platon Lebedev. As well as charges of personal tax evasion, they were also facing multiple counts of fraud and theft. These centred on the corporate accounting schemes Yukos had employed to minimize the tax and duties it paid to the state during the eight years Khodorkovsky had owned it. The amount the state claimed it was owed kept rising because the federal tax authorities kept going further and further back in the company's accounts, auditing one year after another and allegedly discovering ever more serious offences.

It is curious that these offences should be discovered so long *post facto* — each year of Yukos's accounts had been audited at the time by PricewaterhouseCoopers and had been accepted by the Russian tax inspectors — but circumstances of course had changed. Despite being the largest taxpayer in the country, Yukos was now very much fair game.

On 30 June, the Russian Prosecutor's Office demanded the freezing of Yukos assets in Russia and worldwide, making it even harder for the company to pay its debts. Western banks that had lent money to Menatep in the good years suddenly became jittery. Société Générale and Citigroup, which had a \$1 billion loan due for repayment, publicly warned Yukos against defaulting. As later events revealed, it was a move that attracted the attention of the Kremlin, which was looking for potential allies in its continuing crusade against Yukos.

The stop-start nature of the state's attack on Khodorkovsky and the mixed signals coming from the authorities, first predicting the destruction of Yukos and then reassuring investors about its future, led to wild fluctuations in the company's share price. Since these were fluctuations that the Kremlin seemed to be manipulating at will, several observers have suggested that senior government figures were profiting from insider trading to line their own pockets: they would buy shares before issuing an encouraging statement about Yukos and sell before the next round of judicial moves against it. A senior adviser to one of the parties in the negotiations, who spoke on condition of anonymity, is convinced Kremlin officials exploited the opportunity:

During the course of the Kremlin or the government coming after Yukos, since this is primarily about Yukos, one thing that has never really been looked at is where the money went on the rise and fall of the stock price. Before anything ever happened to the asset, it was almost premeditated. There would be these rumours that Yukos is going to be taken over and the stock price would go way down. Then somebody would come out and say — you can almost plot this on the chart — the Kremlin would say,

'We have no interest in bankrupting the asset' and the stock price would go up. Then somebody else would say something. This happened with regularity through that whole period. I do not think there are any records of purchases of shares at the time: taking a look at that would be a very interesting thing to do. I think as much money could have been made from that — maybe not as much as from Yukos itself, but it is an important part of this . . .

During the summer of 2004, the Moscow Arbitration Court found Yukos guilty of not having paid \$3.4 billion in taxes for the 2000 financial year. Two days later it issued a claim for a further \$3.3 billion for 2001 and notified the company that it must pay a 2003 tax bill of \$3.4 billion within five days. At the same time, the Kremlin was putting pressure on Western banks to foreclose their loans to Yukos: Société Générale duly complied and declared the company was in default on the \$1 billion credit facility it had given it the previous year.

With the trial of Khodorkovsky and Lebedev due to open within weeks, the Kremlin was upping the stakes in a big way. Lawyers for the two men found themselves harassed; their offices were repeatedly searched and papers relating to the case confiscated. Several of the youngest lawyers were threatened with disbarment if they continued to work for Yukos.

Yukos's communications department and its US and British PR agencies were targeting the Western media with one simple message: whatever the Russian state may claim about tax arrears and financial irregularities, the case against Mikhail Khodorkovsky is and always has been a political one. A lengthy 'White Paper' released by his legal team contains a desperate plea for Khodorkovsky's friends in the West to come to his aid in his hour of need:

Mr Khodorkovsky has not only spoken about the need for a strong civil society in Russia, he has spent at least \$100 million a year for the past several years on philanthropies designed to make his vision a reality. Those philanthropies include foundations in both Russia and the West that pay for internet education, student exchange programs, cultural projects and institutes where Western political ideas and free market economic theories are taught. It is perhaps for this reason that after his arrest, *The Wall Street Journal* called Mr Khodorkovsky a political prisoner.

He understood perfectly well that Mr Lebedev and Mr Pichugin had been arrested as a warning and a message aimed directly at him. He knew that if he remained in Russia he would be arrested. And he knew that once in gaol, there was almost no possibility of a fair hearing or a fair trial . . . *unless the world demanded that the politically motivated, selective attack on him and his colleagues was such a grave affront to the conscience of the world that it could not stand.*

His decision to remain in Russia and subject himself to the judgment of the Russian court system is part of the fight he has chosen to wage on behalf of the country where he was born and which he intends to see transformed into a country where fundamental human and political rights are respected.

Hopefully the world will understand that this case is not about a single man or a

set of specific allegations; indeed it is a case that is meant to throw light on and test the Rule of Law in Russia, a test that may well determine the future course of Russia's economic, social and political development.

The response from the West was muted, to say the least. Several Western politicians visiting Moscow failed even to raise the Yukos issue for fear of antagonizing their major supplier of oil and gas. Chancellor Gerhard Schroder of Germany was particularly noticeable for his silence when he met President Putin on the eve of Khodorkovsky's trial — perhaps not so surprising, as he was shortly to leave office and take up a lucrative job with Gazprom.

The Parliamentary Assembly of the Council of Europe, a largely consultative body that sits in Strasbourg and oversees the European Court of Human Rights, did however appoint a commission to investigate the legality of the methods being used in the Yukos case. Its chairman, the former German Justice Minister Sabine Leutheusser-Schnarrenberger, was outspoken in her assessment of the case:

There are many circumstances which lead us to believe there must be a political motivation in this case. Khodorkovsky is the only oligarch who sits in prison since October last year. There are massive claims for back taxes directed against him. And this is not happening to any other large company in Russia. These are all circumstances where one can say there is politics involved, not just the rule of law.

There are significant accusations that human rights have been violated around the arrest and also in prison, especially concerning the medical treatment of some of the Yukos detainees. That a businessman manager is held in pre-trial detention for nine months although he is highly unlikely to flee abroad, that he is held like an animal in a cage during court hearings, all this is alarming.

I am very concerned about the developments as far as the rule of law is concerned, democracy in general and the strengthening of civil society. In summary, I believe we are really faced with a very dangerous development here, a move away from democracy and the rule of law.

I believe we must tell Putin: If you are going to continue like this, with the cloak of justice but with political reasons in the background, then we won't be able to continue business relations in this way . . . Primarily the objective of the Russian government is to regain state control over all oil production.

Leutheusser-Schnarrenberger issued a formal report documenting Russia's 'gross infringements' of the European Human Rights Convention and concluding that the Yukos executives had been 'arbitrarily singled out . . . in order to weaken an outspoken political opponent, intimidate other wealthy individuals and regain control of economic assets . . .' The report demanded independent medical supervision of Platon Lebedev's health, an open legal trial for Alexei Pichugin and bail for Mikhail Khodorkovsky.

She might as well have saved her breath. Terrified of jeopardizing their energy

supplies from Russia, the majority of Western governments sat on their hands. Anton Drel, Khodorkovsky's long-serving lawyer, says he was disappointed by the West's pusillanimity:

When I think of the Soviet Union, it was a real superpower, something very serious. And despite all that, Margaret Thatcher and Ronald Reagan demanded the release of political prisoners. Reagan met with dissidents in 1983. Now Russia is much weaker than the Soviet Union was . . . but now the West seems to be afraid. Western pressure is a critical issue for us. At some point a new generation of Western politicians may realize how critical it is . . .

Perhaps even more disappointing was the reaction of Khodorkovsky's erstwhile friends in Britain and the US. The great and the good had had little hesitation in being seen with him when he was a rising star of Russian business; they had had even less hesitation in taking his money. But now he was going on trial, they dropped him with rare alacrity.

Lord (Paddy) Gillford had been Khodorkovsky's public affairs adviser in the UK and had introduced him to leading politicians and businessmen. He says they were delighted to know him until he fell foul of the Kremlin:

I introduced him to the likes of Lord Owen, Jacob Rothschild, Margaret Thatcher. People who had similar charisma to himself — whom he recognized as powerful people. And furthermore, because they were from the West, misguidedly in his mind, he thought they were doubly powerful. Which gave him a sort of false confidence — 'Because I have now got this army of loyal Western demi-gods; I have sat with prime ministers now'. And he would suddenly think, hey, I am untouchable . . .

David Owen was on the board for at least two years as chairman of Yukos International. He was paid thousands of dollars a year and they had twice-yearly meetings! . . . And the moment Khodorkovsky was arrested, I called David up . . . and said, 'David', without mincing my words, because it was pretty dire, it was pretty serious stuff, I said, 'David, you can make yourself useful for the first time in a long time. You can earn that handsome package that I know you have been receiving.' I was probably diplomatic at the time, but that is how I felt inside. And he said, 'I was expecting your call, Paddy, I am afraid I am going to have to reconsider my position, I am resigning.' Literally in the week that Khodorkovsky had been arrested! Oh, absolutely: take thousands of pounds — thank you very much — for two meetings a year, but the moment there isn't anything that can earn that sort of fee, I am off.

I have heard many similar tales of individuals dumping Khodorkovsky as soon as he was arrested. Several Western institutions and charitable causes to which he contributed considerable amounts of money did the same. In 2000, Khodorkovsky was the principal benefactor of the Hermitage Rooms in London's Somerset House, contributing \$7 million to open a British outpost

of Russia's most famous art museum. Paddy Gillford recalls how he was fêted when the Rooms opened:

At the opening, we had Prince Charles saying, 'I would like to thank Mikhail Khodorkovsky for his absolutely stunning donation.' It was at Somerset House — we literally had the great and the good of the British political and business world all under one roof. Jacob Rothschild stood up and spoke for twenty minutes. Douglas Hurd was jostling for a seat with John Major. I mean it was phenomenal.

The management of Somerset House thanked Khodorkovsky by naming one of the rooms after him: his name was painted in gold letters over the door. But when he was sent to gaol, the inscription was discreetly painted over. It was reminiscent of Stalinist times when disgraced former leaders were airbrushed out of official photographs into the void of oblivion.

Donations from Khodorkovsky's personal fortune that continue to finance education for young Russians, including scholarships to attend a famous British university, now go similarly unacknowledged. Open Russia was officially closed down in 2006, but at least some of its activities continue under different titles. I will give no details of where Khodorkovsky's funds are still at work because it could prompt the Russian authorities to harass those who benefit from them, but his legacy lives on even if his name is no longer on it.

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PART SIX

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'Just like Al Capone'

It is mid-July 2004 and the Meshchansky Courthouse is baking in the heat of the Moscow summer. A couple of slowly turning fans do little more than circulate hot air round the scruffy wood-panelled room. The judge has been reading out the charge sheets for over an hour — there are fifty-five pages to get through — and the guards in camouflage uniforms are dozing on their chairs. The men in the dock look even less interested. Mikhail Khodorkovsky has stretched his feet through the bars of the cage he is being held in and buried his nose in a book (the fact that its subject is the history of authoritarianism in Russia is not lost on the Western media present). Platon Lebedev has a newspaper in his hand and seems to be doing the crossword. Anton Drel and the other defence lawyers are shuffling papers and texting on their mobile phones: no one doubts that the court will find their clients guilty.

The central charges being read out by the judge that summer afternoon concerned schemes adopted by Yukos in the late 1990s and early 2000s to minimize the company's corporate tax liabilities. As Khodorkovsky and Lebedev were jointly facing multiple counts of forgery, fraud and theft, the court had decided to conjoin their trials. In addition, they were individually charged with evading the payment of personal income tax. An official from the Prosecutor's Office was busily telling all who would listen, 'It's just like Al Capone, you know. We've got them for tax evasion, but these guys are murderers and Mafiozniki!' The whole affair had a sort of pantomime quality, with the plot written in advance. According to Anton Drel, even the defendants were entering the spirit of things:

Drel: Lebedev said to me in his cell, 'Well, I don't know what they're looking for . . .' and then he says really loud, 'The thing they're looking for, you know — we've hidden part of it . . . you know, the money. But it's a big secret . . .' And then he made up some country — really funny — Cuba or something.

Sixsmith: Cuba?

Drel: Yes. You can laugh, but after that he was bugged and they were sending out inquiries to Cuba to try and find the money! It was hilarious!

Slightly less hilarious were the potential sentences awaiting the two men. If and when they were convicted, the judge would have the option of sending them for ten years to a labour camp. The severity of the penalty reflected the charge sheet's contention that Khodorkovsky and Lebedev had committed their alleged offences as 'part of an organized criminal group'.

It is worth looking in detail at the accusations the two men were facing in the summer of 2004. All of them concerned matters that straddle the boundary between commercial and criminal law, and while the Yukos lawyers argued the alleged breaches should be treated as commercial violations that could be settled through damages and financial penalties, the prosecution was insistent they were criminal violations demanding criminal sentences.

The first charge related to the acquisition of the Apatit fertilizer plant in 1994. As we saw when Lebedev was arrested, the allegation was that Menatep failed to provide the investment it had pledged as a condition of being allowed to purchase the company. Based on the Kola Peninsula near the northern city of Murmansk, Apatit was the largest producer of mineral fertilizer in the Soviet Union, but had encountered severe difficulties in making the transition to a market economy after 1991. By 1994, the company was effectively bankrupt and on the point of being closed down. Wages were not being paid, the workers were striking and the management was burdened with massive debts. After years of neglect and under-investment, the plant's machinery was ludicrously outdated. The value of the stricken enterprise was almost zero. When it was put up for sale in April 1994, the asking price was a paltry \$225,000.

There was, however, a catch. A key condition of the sale was that prospective purchasers had to sign an investment contract, pledging to provide \$280 million for the renovation and re-equipping of the plant. A front company for Khodorkovsky's Menatep Bank agreed to buy Apatit and paid the \$225,000 asking price. But when it came to the \$280 million investment money a dispute arose. Menatep insisted on putting the investment directly into the plant rather than simply handing over the cash, because it feared it would be siphoned off by the management team. A legal battle ensued, during which Menatep argued that it had met its obligations by installing new equipment worth considerably more than the \$280 million stipulated. The Moscow Commercial Court agreed. The complaint was dismissed and the new owners of Apatit went on to turn the enterprise into a considerable success story. By 1998, annual production had more than doubled and sales were booming. A network of marketing deals in Russia and abroad had revolutionized the way the firm operated and enough profits were generated to install the most modern equipment in the industry. By 2000, all the inherited debts had been paid off and Apatit was making consistently growing profits.

The plant's old managers, though, were still smarting that they hadn't got their cash in hand back in 1994, and in 2002 they took Menatep to court once again. A final settlement of the dispute was reached in a commercial court on 19 November 2002: Menatep agreed to hand over \$15 million in cash and the plaintiffs agreed to put it in their pocket and go away.

The Chief Prosecutor, Vladimir Ustinov, approved that agreement a month later and concluded that there were no grounds for prosecuting Menatep. The matter was concluded to everyone's satisfaction.

It was only in the middle of 2003, when an angry Kremlin was searching

for ammunition to use against the upstart Khodorkovsky, that the Russian Prosecutor's Office started to take another look at the case. Prosecutor Ustinov abruptly reversed his earlier decision. Far from accepting the amicable settlement of the affair, he now decided to bring charges against Menatep under article 159 of the Russian Criminal Code (large-scale fraud by an organized criminal group) and article 315 of the Commercial Code (maliciously frustrating a civil judgement by deceiving a state official). Khodorkovsky and Lebedev were charged with fraudulently acquiring the Apatit shares and unlawfully enriching themselves on a large scale at the expense of the state. The front company used by Menatep was declared unconstitutional and the further charge of forging official documents was duly added to the indictment sheet.

The charges in the Apatit case take no account of the parlous state of the company when it was purchased, nor of the efforts made to revitalize it, nor of the fact that it was restored to profitability and thousands of jobs saved by Menatep's investment. Most glaringly, they fail to acknowledge that all outstanding claims had been settled in other courts, so there was no longer any aggrieved party. Khodorkovsky had been preparing his opening address to the Meshchansky Court, and he was looking forward with malicious pleasure to pointing out the conspicuous inconsistencies in the state's case.

The second charge against Khodorkovsky and Lebedev was much more wide-ranging and it involved considerably larger sums of money. It concerned the issue of tax optimization, the ruses used by Russian companies in the 1990s to keep their tax liabilities to a minimum. It was a period of economic chaos in Russia when the government of Boris Yeltsin lost control over the activities of big business. The transition from the central command economy of the Soviet era to the new capitalism of the free market had happened virtually overnight; the country's legal system had struggled to keep up, and legislation governing commercial activity had become outdated and inadequate. The tax laws in particular were riddled with loopholes, and the big entrepreneurs were exploiting them with gusto.

By the middle years of the decade, a vicious circle had set in: Russian industry and business was paying less and less tax; the government's revenues were falling to the point where it could no longer meet its spending commitments, and the only response it could think of was to push tax rates higher and higher in the hope of making up the shortfall. In some branches of industry, effective tax rates of close to 100 per cent were becoming the norm. Not surprisingly, entrepreneurs began to look for ever more sophisticated ways of beating the system. One of them, known as differential transfer pricing, was used widely by the oil industry, including by Yukos.

Differential transfer pricing worked in roughly the following way. In theory, Yukos's main extraction facility Yuganskneftegaz was supposed to pay tax on every barrel of oil it produced at the wellhead equal to the value of the oil itself. In other words, if the company produced \$1,000 worth of oil, it was expected to sell it for \$1,000 and pay tax of \$1,000 to the Kremlin. Differential pricing

involved the use of a structure of intermediary companies to avoid this. The \$1,000 worth of oil would be sold to one of these for say \$600, thus reducing the tax to \$600. The intermediary company would, conveniently, be registered in an offshore tax haven, from where it could sell on the oil for its true value of \$1,000 without any further tax liability.

An additional wrinkle was that legislation passed by the Russian government had effectively allowed firms to bring their 'offshore' trading companies onshore. The Soviet Union had had a string of 'closed cities' on its territory, which were forbidden to foreigners and which even Russian citizens had to request official authorization to visit. These were cities with strategic military or nuclear facilities and they were administered by the KGB. By the early 1990s, forty-two such cities remained, mainly in Siberia and the Urals. They were being progressively declassified and opened, but their years of isolation meant they had been starved of business investment, and in the new post-Soviet market economy living standards in the closed cities had fallen dramatically. The Kremlin's response was to look for ways of boosting their prosperity: in 1992 the closed zones were renamed ZATOs (Closed Administrative Territorial Formations) and given a preferential tax regime. The new legislation expressly gave ZATOs the right 'to grant additional reductions in taxes and fees to legal entities that are registered as taxpayers with the tax authorities of the Closed Territorial Administrative Units'. Firms operating there were allowed to enjoy the same beneficial tax status traditionally associated with offshore havens such as the Bahamas or the British Channel Islands. As a result, many companies registered their businesses in ZATOs. The regulations strove to ensure that these were bona fide firms bringing in real jobs to the closed cities and not merely shell companies set up with the sole aim of minimizing tax. In practice, though, little was done to distinguish between the two. As a result, a parliamentary commission later concluded that 'hundreds of millions of dollars in taxes' were under-collected from firms using ZATOs, including many oil companies. In 2003, when the Kremlin was seeking reasons for prosecuting Khodorkovsky, his use of onshore tax zones was chief among them.

The question of Yukos's guilt or innocence on the ZATO tax avoidance charges is, inevitably, less than clear cut.

In December 1997, Yukos set up a series of intermediary companies for the express purpose of distributing its oil through ZATOs and benefitting from their preferential tax treatment. Most of these subsidiaries, including Biznes-Oil, Mitra and Invest-Proekt, were registered in the closed city of Lesnoi in the Sverdlovsk region of Siberia and were formally recognized by the Sverdlovsk authorities as tax privileged companies.

When it came to prosecuting Khodorkovsky and Lebedev, the Kremlin alleged that Yukos's Biznes-Oil had falsely claimed to be carrying on the majority of its activities and employing the majority of its workforce in Lesnoi, in order to gain tax privileges it was not entitled to. The court indictment read out to the accused pair on that hot July afternoon in 2004 stated:

In violation of article 6 of Russian Federation law Nr 3297-1, 'On Closed Territorial Administrative Entities' of 14 July 1992, Biznes-Oil, while undertaking practically no activity in the ZATO territory of the city of Lesnoi, was unlawfully registered in said city by the city's administration as a taxpayer with preferential right to tax assessment as a result of actions taken by a group organized under the leadership of Lebedev and Khodorkovsky. The participants of the group organized under Lebedev and Khodorkovsky's leadership did then submit tax declarations in the name of Biznes-Oil knowingly containing false information on the existence of tax privileges for the following types of taxes: VAT, housing fund tax, road usage tax, fuel tax and corporate profits tax. As a result of the said activities, the sum of 1,217,622,799 roubles was underpaid in taxes. This is tax evasion.

The alleged offence is a complex one, not made any simpler by the fact that legislation on the criteria for legal registration in a ZATO changed substantially on three or four occasions during the 1990s. So while it may well be true that Biznes-Oil's main seat of activity and employment was not Lesnoi, it is by no means clear that Yukos deliberately or even accidentally broke the rules. Neither is there any acknowledgement in the court documents that the whole ZATO scheme was set up by the Russian government itself, that its stated aim was to attract companies to cities like Lesnoi and that both the local and central authorities validated the registration there of Biznes-Oil. What is clear is that Khodorkovsky's chief aim in setting up in Lesnoi was to save tax. In 2004, the charge sheet produced by the Prosecutor's Office simply assumes that to do so was automatically an illegal manoeuvre. What is more, the Biznes-Oil example is used in the charge sheet as a test case for a whole series of Yukos subsidiaries, all of them saving their parent company billions of roubles in taxes every financial year.

The stakes were extremely high: the court's decision would mean the difference between Yukos's surviving or being destroyed.

For a first-hand assessment of the legality or otherwise of Khodorkovsky's use of differential transfer pricing and ZATOs, it is hard to find a better-qualified commentator than the man who wrote the laws in question. Yegor Gaidar was Russia's Prime Minister or Deputy Prime Minister for much of the early 1990s and helped to elaborate the tax rules of the time:

Gaidar: Precisely because I have been personally preoccupied with this topic, I have the right, I believe, to express my opinion on the claims made against Mikhail Khodorkovsky — and I am quite certain of this: during the period to which the charges relate, given existing laws, the transactions involved were perfectly legal.

I and my colleagues spent a good deal of time and energy in changing the wording of the articles relating to this, to make them effective [i.e. to outlaw the tax avoidance manoeuvres Khodorkovsky was exploiting] . . . However, the events described in the indictment took place either during the period in which these articles were inoperative, or at a time when transfer pricing was even more poorly regulated by existing law.

This may not be pleasant, but a fact is a fact that during those years, the authorities permitted the setting-up of internal offshore subsidiaries in Russia, and most companies made use of them to minimize their tax liabilities . . .

It is worth remembering that a selective application of the law, whereby some are [retrospectively] given permission, and others are not, is a direct threat to our country's rights and freedoms . . .

Justice on trial

The trial of Mikhail Khodorkovsky and Platon Lebedev was to last ten months. It was a show trial in the sense that its ramifications went beyond the specific charges of tax evasion against a specific company and specific individuals. Also on trial was the whole privatization process of the 1990s, in which the wealth of the Soviet nation was sold off to a handful of entrepreneurs. On trial, too, were the attempts of Vladimir Putin and his associates to reverse the privatization of the oil industry and bring Russia's energy resources back under state control. That in turn had implications for the direction Russia would follow in the future — liberal democracy and free enterprise, or state domination of the economy and politics. And finally, the Russian justice system was on trial: would the courts weigh the arguments . . . or simply bring in the verdict the Kremlin required?

After the judge had finished reading the charges against them, the prisoners were invited to make opening statements. It was 16 July and Moscow was continuing to roast in the summer heat. The three women judges in their heavy black robes mopped their faces with handkerchiefs. Wearing jeans and a cotton V-neck sweater, his grey hair in a sharp crew cut, Khodorkovsky rose to speak. From inside the iron cage that served as a dock, he read from a piece of A4 paper in a steady, distinct voice:

In the past year the media and society have been actively discussing the following questions: What is the 'Yukos–Khodorkovsky case'? A case involving a company singled out for politically motivated reasons? Or just an ordinary criminal affair? And what does this mean for the country? In my opinion, society has long been aware of the political motives behind this case, so I do not intend to elaborate on this point. I do not want to make political declarations to respond to criminal charges. Instead, I will address the core of the charges very directly . . .

The decision to concentrate on refuting the substance of the charges against him, rather than to turn his trial into a political indictment of the Putin regime was a deliberate choice by Khodorkovsky. It would determine the tenor of all the court proceedings to come, and it seemed to indicate that he was convinced of his own innocence. More than that, it suggested he believed he could prove his innocence point by point, that the court would listen to this proof and that it would make an unbiased decision based on the evidence. We have already heard several of his closest friends accuse Khodorkovsky of naïvety for believing in the objectivity of the Russian justice system. I am told that most of his defence team — particularly those Western lawyers drafted in to argue his

case — were adamant that his only chance was to insist on the political nature of the proceedings and to denounce them loudly at every opportunity. They believed there was no possibility of a fair hearing on the merits of the alleged offences, and the only hope of an acquittal was to appeal to public — specifically Western — opinion.

Platon Lebedev, in his opening statement seemed much more willing to do this, concluding starkly, 'I have come to realize — and I am now absolutely convinced — that the state is persecuting me for political reasons and that the charges against me have been invented or cunningly cooked up . . . The same Russian tax authorities who are now accusing me of criminal tax evasion audited — and approved — my tax returns twice before they suddenly decided to reverse their opinion and prosecute me. The international image of Russia's judicial system will depend on its conduct of this case . . . and these proceedings are a farce.'

Khodorkovsky by contrast was restrained, unemotional and seemingly willing to play the game the court demanded: like a victim in one of Stalin's show trials, he addressed the legal detail rather than the political injustice. I have been told that this advice on how he should conduct himself came from one of the senior Russian lawyers on his team, a man named Genrikh Padva. Asked about this, Padva replied, 'Society had already evaluated whether this process is a political one or not. That is obvious. That's why he didn't discuss this in detail.' Padva's motives and allegiance have been called into question by some of those involved in the trial and we will return to them in a later chapter. For the moment, though, Khodorkovsky was following Padva's strategy and rebutting the charges on their merits:

First, I am being charged with acquiring shares of Apatit illegally. I will prove that this is simply a shoddy attempt to blame me for the errors of the privatization laws . . . and for subsequent actions taken by government agencies.

The prosecution has insisted I am guilty of improper trade policies in connection with Apatit. I want to point out that this 'improper' trade policy has brought success and profitability to the company. I will prove that these charges are as absurd from a legal perspective as they are from the perspective of common sense. Apatit is now a successful company paying salaries, implementing good social programmes and raising production levels . . .

There are also charges against me regarding taxes. I will prove the baseless nature of these charges from the point of view of the law; and I will prove the absurdity of the charges on an ethical level. I will show that Yukos paid not less but *more* taxes than most other companies. Yes, Yukos made some use of legal tax breaks, but these tax breaks were always within the law.

It is difficult to understand how a company that is the second largest taxpayer in Russia after Gazprom, and which is audited up to 500 times a year, whose accounts are confirmed by international audits and given to the Tax Ministry, sometimes in the presence of the Minister of Taxes and Levies himself, and which makes up 5 per cent

of the state's total budget, should after four years suddenly have to pay much more in taxes than the industry average. It is incomprehensible.

The state's show of force [against us], albeit cloaked in the pretence of judicial due process, makes a mockery of the law and represents a grave danger to our country.

The government's response was dismissive. Lead Prosecutor Dmitry Shokhin pointed out that there were '227 volumes' of damning evidence against the defendants who were clearly guilty of widespread fraud and deception. 'I must congratulate Khodorkovsky and Lebedev', Shokhin told the court, 'on their ability to juggle so skilfully with the facts. Both of them are very adept at making loud statements intended to obscure the truth and influence the media and public opinion.'

The antagonism between the two sides lasted for the duration of the trial. Dmitry Shokhin was one of the stars of the Prosecutor's Office. Young, smart and handsome, he would stride daily into the court in his light blue colonel's uniform, giving him a rather dashing image and the proceedings the air of a military tribunal. His courtroom manner would vary from the dull — one of his speeches lasted twelve hours and he had a habit of reading vast tracts of evidence into the record in a droning monotone — to the impassioned. On occasions, Shokhin seemed so consumed with the burning desire to denounce the 'organized group of Khodorkovsky and Lebedev' that it became uncomfortably reminiscent of the 1930s prosecutors 'unmasking and denouncing' the 'organized groups of imperialist, Trotskyite spies'. A stickler for protocol, he was quick to jump to his feet and protest if he thought the defence were leading witnesses or putting pressure on court experts. When he was cross-examining, however, Shokhin's manner was sharp and hectoring; he would repeat a question over and over until he got the response he wanted. He seemed to take it as a matter of honour that he should object to any defence request to add new evidence to the file. Outside the court he would rebuff all questions from journalists and the public with an inscrutable smile and an unwavering 'No comment'. His assistant, deputy prosecutor Alexander Arkhipov, sat quietly in the shade of his superior's fiercely burning light.

Over the ten months of the trial, Mikhail Khodorkovsky showed himself to be a model defendant. Unfailingly polite, he would raise his hand if he wanted to make a point and wait patiently until invited by the judge to speak. Every day he was led into the court in handcuffs and ushered into the iron cage where the state deemed he could safely be unshackled. He was unvaryingly dressed in blue jeans and a dark shirt under a beige jacket. A plastic folder with a pen and notebook were his constant accessories. Generally, his manner was calm and he smiled a lot. When Prosecutor Shokhin was reading out his interminable volumes of evidence, Khodorkovsky would devour hardback book after hardback book. At the end of the trial, he told Anton Drel he had learned more about literature and the arts behind bars than he ever did in his life of liberty.

The three women judges seemed to appreciate Khodorkovsky's civility. If

they didn't flirt with him, they at least exchanged increasingly friendly pleasantries. The senior judge, Irina Kolesnikova, was serious and dignified behind large circular glasses. She was formal in her pronouncements, quick to accept the demands and objections of the prosecution but more reluctant to give the defence similar leeway. Her companions, assistant judges Elena Maksimova and Elena Klinkova, were younger and readier to chat with the defendants' relatives in the breaks between sessions. When something amusing cropped up during testimony, they were prone to giggle — they even laughed at some of Khodorkovsky's little jokes — while senior judge Kolesnikova would quickly clap her palm to her mouth to hide any hint of a smile.

Only on one occasion did Judge Kolesnikova have to reprimand the charming defendant. That was when Khodorkovsky rose 'to congratulate the employees of the Russian Prosecutor's Office on the 283rd anniversary of its foundation' and rather loadedly added, 'I am sure that all the problems faced by the Prosecutor's Office today will be overcome . . . just as soon as an independent judicial system is created in this country'. Dmitry Shokhin stopped smiling and jumped to his feet, demanding that the court should condemn the defendant's 'attempt to belittle the prestige of the Russian judicial authorities'. Judge Kolesnikova duly obliged and warned Khodorkovsky that 'statements detrimental to the prestige and standing of the court' would not be permitted.

She had considerably more problems with the unfailingly choleric Platon Lebedev. Unused to anyone questioning his views, Lebedev launched into periodic tirades against the court and in particular against Shokhin. On one occasion, he berated 'the anti-constitutional extremist organized criminal group led by Investigator Karimov, Deputy Prosecutor Biryukov and their representative in the court, the immoral careerist lackey Shokhin. These individuals', he fumed, 'have joined in an organized conspiracy to falsely issue legally unsubstantiated accusations against me and my friend Khodorkovsky . . .'

Judge Kolesnikova looked sternly through her circular glasses and warned the defendant to hold his peace. Lebedev responded that he did not recognize the authority of the court and would hold individuals responsible at the European Court of Human Rights.

Khodorkovsky and Lebedev were represented in court by a team of eighteen barristers. Quantity did not guarantee harmony, however, and stories of disagreements between the learned friends were rife. Anton Drel tended to side with the Western lawyers, like the flamboyant Canadian Robert Amsterdam, who wanted to politicize the trial, but found himself overruled by the views of Genrikh Padva. A new star was rising in Yukos's legal firmament: sitting on the defence benches was the irrepressible human rights lawyer Karinna Moskalenko. Loud and forceful with a shock of curly brown hair, Moskalenko was to become a driving force in the months after Khodorkovsky was sentenced to gaol. During the trial she clashed with Padva, sometimes not following his instructions; on one occasion he asked the judge to turn down a request she had made to the court. The atmosphere within the defence team was at times tense.

Initial estimates for the length of the case ranged from four to six months. In the end, the hearings in Moscow's Meshchansky Courthouse went on for ten months and then another two before a verdict was announced. For the whole of that time, proceedings in court were unfolding in parallel with another drama outside: as the lawyers argued, Yukos itself was being steadily dismantled by the state.

By the time the court proceedings were underway, the claim for back taxes against the company had risen to a staggering — and frankly rather unbelievable — \$28 billion. As more of the firm's assets were seized and auctioned off, Khodorkovsky told the court he would throw himself on the mercy of the government if it could help to save Yukos:

I fully understand [the need] . . . to establish a dialogue with the government. Concerning my personal position, it is simple — to obey the court's decisions and to find a compromise with the government that would allow Yukos to survive . . . I accepted the fact that I would lose my assets a long time ago, even offering my shares to pay for what I think are the completely illegitimate claims for tax arrears. I do not get worked up about material possessions. I consider that such an approach would be much preferable to destroying the company, which is what is currently taking place . . .

The trial drew to a close on 11 April 2005 and Judge Kolesnikova offered the defendants the opportunity to make concluding remarks. Platon Lebedev, still not recognizing the court's authority, refused. Khodorkovsky rose to make an unusually emotional closing statement. He said he did not consider himself guilty of any of the charges against him — all the actions he took on behalf of Yukos were legal under the laws that existed at the time; the prosecution was 'deliberately making false accusations' against him; and he felt sorry for Prosecutor Shokhin 'whose role is to stand up in court for the illegal schemes of others':

The whole country knows how, by whom and why the scandalous 'Yukos affair' was orchestrated. It was engineered by certain influential people who wanted to get their hands on Russia's most prosperous oil company, or more precisely, its profits.

I just have to laugh when people say that the Yukos affair has led to a strengthening of the role of the state in the economy. The people who are currently engaged in embezzling Yukos's assets couldn't care less about the interests of the Russian state. They are unscrupulous, self-serving bureaucrats, nothing more. The whole country knows why I was put in prison: so as not to obstruct their plundering of the company.

The people who arranged my persecution tried to frighten the authorities and society with my mythical political ambitions. They openly misled the President and Russian society in general. But I am convinced that in our global transparent world, there are no secrets that won't come out in time . . .

Khodorkovsky is unmistakably and openly accusing the Siloviki — Igor Sechin, Viktor Ivanov and the others — of destroying Yukos in order to line

their own pockets. It is interesting that he does not include Putin himself among the guilty men, and that he denies his own political ambitions were the motive for the attack on him. I suspect he is deliberately playing down both of these, for the quite understandable reason that to say otherwise would prejudice any chance of acquittal he might still have. As for the charges against him, he dismisses them contemptuously as a judicial fig leaf for the Siloviki's rapacious greed:

I am a Russian patriot. I made a conscious choice — to remain in the country and not to hide. I was arrested eighteen months ago by armed men in masks. My friend Mr Lebedev was arrested in hospital. Ever since, [we] have been held in detention and denied bail despite the guarantees of dozens of our country's most respected citizens: eminent writers, scientists, actors and public figures.

There is not a single document or a single word of testimony pointing to illegal actions by Platon or myself. Two years of searches, the interrogation of hundreds if not thousands of employees, the taking of hostages through the arrest of completely innocent people. Two years of inhuman toil by the Prosecutor's Office — and zero results!

The uncorroborated fabrications of the public prosecutors are evidence only of their own criminal intent. There is simply nothing for me to defend myself against in an independent court.

Khodorkovsky argues that the charges of personal tax evasion are ludicrous — the alleged amounts are trifling compared to his personal wealth:

I did not tell the court about my charity work. Everyone knows it involved billions of roubles annually. So it is actually quite amusing that I should be accused of evading \$1 million a year.

I don't — and didn't — need more money. I don't buy myself yachts, palaces, racing cars . . . or football clubs! My house is modest and I don't have any properties abroad. You can ask the special services: they've found out all about these things.

After the charade of the Yuganskneftegaz auction, my 59.5 per cent of shares in GML (Group Menatep Limited) were transferred in a trust fund to Leonid Nevzlin. I have relinquished any control of the business and any profit I might have obtained from it. I no longer have any major assets. I am no longer an oligarch. All I have is my knowledge that I am in the right . . . and my will to be free.

Khodorkovsky told the court that he was proud of what he had accomplished as a businessman: far from stealing the assets of the Soviet Union, he said, he had inherited an industry in meltdown and rebuilt it into a major asset for the Russian economy. He was proud, too, that he had introduced Western standards of transparency and openness that were now slowly being adopted by the rest of Russian business. But most of all, he was proud of the social philanthropy he had undertaken and the support he had shown for independent media, democracy and freedom of speech:

I did all this not for the sake of popularity — before I was arrested, hardly anyone knew of the social programmes I have described — but because my conscience and upbringing so dictated. Because I believe it to be the right and honest way of living.

I have made my modest contribution to the rebuilding of Russian industry and the establishment of a civil society. I made mistakes in places but I genuinely strove to work for the good of my country, and not for my own material gain.

Everyone knows I am innocent of the crimes of which I am accused. I do not therefore intend to plead for leniency. It will be a disgrace for the whole country if the world witnesses this court operating under the influence of officials from the Kremlin . . .

The rest of Khodorkovsky's address reads a little like an Oscar acceptance speech, thanking all those who have stood by him. But it reflects quite fairly the extent of the interest — and outrage — the Yukos case aroused in Russia and abroad:

Support from people with different views, of different generations and different professions has helped me to get through this, to reconsider much of my past and to open a new page in my life. Hundreds of my colleagues have behaved according to their conscience, despite the pressure and threats from the Prosecutor's Office. Many of them have been thrown into prison, held as virtual hostages, but have not lost their human dignity and are continuing to walk the path of truth.

Thank you for everything: I am with you all and will always support you!

Thank you to everyone — politicians, journalists, people of culture and science, entrepreneurs — to everyone who wasn't afraid to speak out in my defence; to the tens of thousands of Russians who have supported me with their letters. To quote the sacred words of the Gospels, they have chosen the righteous path.

Thank you, my dear parents who have had to endure so much, and please forgive me for upsetting and worrying you. Thank you to my wife, who has been a true friend, a real Decembrist. I want to tell everyone in my family that I love them. I have three children, and I would like to give them a good education.

I want to and I will work — in a new capacity, not as the owner of an oil company — for the good of my country and my people, whatever the court judgment.

Khodorkovsky's emotional testimony in the packed courtroom brought a three-minute round of applause from a public gallery that clearly sympathized with the accused. During the trial, Judge Kolesnikova had frowned on any displays of emotion, but this time she did not intervene. When the clapping ended, she declared the proceedings over and said sentence would be pronounced in a month. Prosecutor Dmitry Shokhin told the television cameras, 'The evidence shows that Khodorkovsky and Lebedev embezzled tens of billions of roubles. The scale of the fraud and the structure of the criminal group they headed are unique. The prosecution has no doubts about the verdict in this case.'

He was, of course, right. On 31 May 2005, the 662-page verdict of the Meshchansky Court reproduced the prosecution's accusations almost word for

word. The court found the two men guilty on six of the seven charges against them. Each was sentenced to nine years in a Siberian labour camp, later reduced to eight on appeal.

The murder business

Once it became clear that the Kremlin was not pulling its punches in the fight against Yukos, Leonid Nevzlin, Mikhail Brudno and Vladimir Dubov knew they could never return to Russia. They had fled to Israel at Khodorkovsky's insistence before he was himself arrested; now they were themselves being pursued by the Russian authorities. Interpol arrest warrants were issued against them on charges of fraud, embezzlement, tax evasion and — in Nevzlin's case — being an accessory to murder. Nowadays they can travel to very few countries without fear of being arrested (the US is an exception in that it has indicated it will not enforce the Russian warrant).

On a rainy autumn morning, I am sitting in an office on an upper storey of a steel and glass high-rise in Tel Aviv. Across the table from me, Leonid Nevzlin is sipping a cup of tea and eyeing up a *pain au chocolat*. He has spoken at length to me during the course of the morning and has been open to most questions about his past life and activities in Russia, so I decide to raise the question of the murder allegations.

The accessory to murder charges accuse Nevzlin of giving the order for Alexei Pichugin, the company's security chief, to kill the mayor of Nefteyugansk, as well as a businesswoman who crossed Yukos over a property deal, and a husband and wife hit team who had failed to carry out another murder on his behalf. Nevzlin has dismissed the charges as nonsense, but they are repeated widely and often in the official Russian media where they are used to portray him as a sinister and vicious gangster. In February 2008, the Russian Prosecutor's Office announced that it had enough evidence to open a formal case against him and that proceedings would begin early the following month. Nevzlin looks me in the eye and shrugs:

I am on the receiving end of all this hatred, all these accusations . . . and they [the Russian authorities] don't relent. They not only took away everything, they go on persecuting me. They just won't relent. They send accusations over here, all kinds of documents — every time . . . And I wonder about their future actions. I've been accused of everything — tomorrow they will try me in my absence. Then will they come and kill me? I don't know what they will do. The situation over the charges — basically, it's pure hatred and revenge . . .

As with many stories in the oil wars of the 1990s, the deaths Nevzlin is accused of ordering were part of a murky struggle for control of Russia's vast natural energy resources. It is true that many managers, owners and businessmen in the oil industry died in suspicious circumstances in those days. This

was Russia's era of gangster capitalism, when business disputes were often settled with bullets from a Kalashnikov. As I have dug deeper into the four deaths attributed to Leonid Nevzlin, I have uncovered further murder allegations against the then owners of Yukos and reports of vicious unexplained physical attacks on the company's business rivals. In every case I have found conflicting versions of what happened and contradictory explanations of who was behind the killings. Many of those involved in or privy to information about the events of those years have refused to speak to me, but I have been able to piece together the basic facts of the story and subsequently to draw some conclusions about the motivations behind the murders.

On the morning of 26 June 1998, the mayor of Nefteyugansk was walking to work accompanied by his permanent security guard. As they approached the city hall, shots from an automatic weapon rang out and both men fell to the ground. The gunman fled the scene and was not identified by any of those who witnessed the killing, but the mayor and his guard were left bleeding on the sidewalk. The mayor died later the same morning in hospital and his bodyguard was left with injuries that meant he could never work again.

Nefteyugansk is the city where Yukos held a substantial proportion of its assets in the form of the oil extraction company Yuganskneftegaz, and from where it took the first syllable of its name (Yu). The population of the city was close to 100,000 people and virtually all of them depended on oil for their jobs. The word oil (*neft*) is in the very name of the place: in many respects, Nefteyugansk depended on Yukos for its existence.

The city's mayor, Vladimir Petukhov, was a popular man, well loved by many of those he represented, and news of his death caused people to take to the streets. Crowds marched through Nefteyugansk accusing Yukos of being behind the murder. They gathered at the Yukos headquarters in the city and blockaded the premises, demanding that the company be banned from continuing or expanding its operations in the region. And it is easy to understand why they blamed Khodorkovsky's men for the killing. All the circumstances seemed to point in that direction.

Vladimir Petukhov had initially been an ally of Yukos. There were even rumours that Khodorkovsky had fixed his election in order to have a friendly face in charge of the city administration. At first, things had gone well and both sides seemed satisfied with the deal. But in early 1998 a dispute appears to have arisen between them, the causes of which were at the time unclear. In May, Petukhov upped the stakes by publicly accusing Khodorkovsky and Yukos of failing to pay the taxes it owed to the city budget, a claim that is almost impossible to substantiate or disprove in light of the chaotic tax laws of the period. The extent of the bitterness between the mayor and the oilmen became apparent on 15 June when Petukhov told local newspapers and radio stations that he was going on a hunger strike to protest against the behaviour of Yukos. He said he would end it only if the Russian authorities would annul the sale of Yuganskneftegaz to Yukos, fire the region's tax officials who dealt with Yukos's

tax affairs and open criminal charges against Khodorkovsky and his partners. After talks with the region's governor, Petukhov announced on 22 June that progress was being made on his demands and that he was therefore suspending his hunger strike. Four days later, he was gunned down and died.

For many local people, the circumstantial evidence was clear: Yukos had ordered the murder of a political opponent who was threatening to expose their dirty tricks. The clinching argument, if one were needed, was archetypally Russian: Petukhov had been murdered on Khodorkovsky's birthday (he turned 35 on 26 June 1998), apparently following a dark tradition in the country's history of political and business murders that enemies may be exterminated as a macabre 'birthday present for the boss'. (The tradition continued in more recent times with the murder of the opposition journalist Anna Politkovskaya on 7 October 2006 . . . Vladimir Putin's 54th birthday.)

As with so many similar killings in 1990s Russia, no charges were brought in the Petukhov affair. Five years later, though, when the Kremlin had fallen out with Khodorkovsky and was looking for evidence against him, the Russian authorities were quick to return to it. The case they advanced then was that the mayor had been trying to stop Yukos getting away with tax fraud and that he had been killed to keep him quiet. Specifically, the Kremlin alleged that the murder had been arranged by Khodorkovsky's head of security, Alexei Pichugin, who had been acting on the orders of Khodorkovsky's deputy, Leonid Nevzlin. Other murders were also attributed to the two men and Pichugin was sent to gaol for them, while Nevzlin, now in exile in Israel, was pursued by warrants for his arrest and extradition back to Russia.

It is, of course, completely possible that the Kremlin's version of events is correct: murder as a means of settling business quarrels was common in the years leading up to 1998 and there is no reason why Khodorkovsky and Nevzlin should have been any different from the other CEOs who used such methods. But as I pieced together the details of the murder, a couple of things made me wonder if the case might not be quite so cut and dried as it appeared. For a start, Nevzlin and his former Yukos colleagues are insistent that they paid all taxes due to the Nefteyugansk city council and that they had regarded Petukhov as their ally. In addition, the Kremlin made absolutely no move to implicate them in the murder until political quarrels turned Khodorkovsky into an enemy of the state after 2003. Indeed, immediately following the shooting, other very different explanations were advanced for it and I decided to revisit these in the course of my research.

One immediate discovery I made was that Yukos money was essentially paying for the whole of Nefteyugansk. So important was oil to the region that all local services, from hospitals and schools to water works and rubbish collection, depended on the continuing inflow of taxes from Yukos to keep them going.

By May 1998, it had become clear that salaries to doctors, teachers and other vital city workers were not being paid and Mikhail Khodorkovsky was starting to be blamed for this. Mayor Petukhov was hinting publicly that he had

been starved of funds to pay the salaries and that it was not his fault if people were going hungry. Khodorkovsky, though, claims he had been scrupulously handing over everything he owed to Petukhov . . . and that Petukhov had been diverting it into certain construction schemes involving companies with alleged Chechen mafia connections that were friendly with him or with his wife.

I cannot verify these claims, but it is a matter of record that on 3 June 1998 Khodorkovsky decided to bring the issue to a head. Yukos's tax bill to the city of Nefteyugansk for that month amounted to 25 million roubles. Instead of wiring the money as usual to Petukhov's city treasury account, Khodorkovsky loaded the 25 million roubles in cash into a Yukos transport plane and flew them down personally to Nefteyugansk. He then handed the cash to the various departments of the city's public services and instructed them to ensure that the doctors, nurses and teachers got their pay in full. In a homily that makes him sound like a prissy schoolmarm, he reportedly announced to those present:

I am doing this because your city administration has always had sufficient funds to ensure public sector salaries were paid in full and on time. The amount of the city budget needed for the payment of salaries is 18 million roubles. In the last five months, my company has paid more than 120 million roubles into the administration's coffers. The city administration has got its priorities wrong. It is withholding the payment of salaries in order to finance other projects which are considerably less important and less urgent . . . That is why I am now ensuring that the money is distributed directly to the individual public departments involved, instead of going through the hands of the city administration.

Khodorkovsky then made a formal request to the local Prosecutor's Office that they should take measures to verify the probity of the mayor's use of public funds and he flew out of Nefteyugansk as abruptly as he had flown in. The city administrators were left in a state of dumbfounded shock resembling the panic caused by the unexpected visit of Gogol's fictional nemesis, the Government Inspector . . .

In this alternative version of events, it seems possible that Khodorkovsky's refusal to pay the tax money to Petukhov left the mayor unable to meet his financial promises to the shady entrepreneurs undertaking the alleged construction schemes in which he and his wife had become involved. Petukhov's June hunger strike could therefore have been intended to convince his business partners that he was not to blame for this, or to intimidate Khodorkovsky into giving him the funds he needed to pay off his unscrupulous creditors. And Khodorkovsky's demand for the local Prosecutor to investigate Petukhov's alleged misuse of public funds could have panicked the mayor's associates into shooting him to ensure his silence.

All this is, of course, conjecture. What is clear is that many people in Nefteyugansk are convinced that Chechen 'businessmen' — a euphemism for the southern mafia groups that became so powerful in the Russian economy

of the 1990s — had infiltrated business in the city. What is also clear is that Mikhail Khodorkovsky was doing his utmost to get the Chechens out of Yukos's patch.

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The Chechen connection

In the early to mid-1990s, before Khodorkovsky gained control of Yukos, not all the oil extracted from the Yuganskneftegaz fields was being sold directly onto the open market. Much of it was going through the hands of middlemen, informal brokers who would wheel and deal to place the oil with buyers. It was a common practice among oil companies; it continues to this day both in Russia and throughout the world. The difference in Nefteyugansk in the early 1990s was that the middlemen selling on the Yukos oil appear at least in part to have been groups related to organized crime gangs. Many of these were controlled by Otari Kvantrishvili, the boss of the feared Solntsevo mafia from Moscow. Kvantrishvili was murdered by a rival gang in 1994, and it was widely rumoured that the Chechen mafia then stepped into the vacuum he left behind.

According to news reports at the time, the Chechens muscled in on the lucrative oil distribution trade by threatening the (pre-Khodorkovsky) management of Yuganskneftegaz and bullying them into a partnership that allowed the gangsters to line their pockets. The leader of the Chechens was named in the Russian media as Khozhakhmed Nukhaev and allegations were rife that the profits from his activities were being channelled to guerrilla forces in the breakaway republic to finance their military campaign for independence from Russia.

When Khodorkovsky gained control of Yukos in 1996, he was faced with difficult decisions over the way they would bring their oil to market. The easy option would have been to turn a blind eye to the activities of the Chechen middlemen, but Khodorkovsky opted not to do this. Menatep's explanation is that the decision to ease out the mafia from Yukos's oil resale business was taken as a matter of principle to restore the integrity of the company. In fact, it was almost certainly a pragmatic financial decision based on the millions of dollars in lost profits that were going into other people's pockets. But the fact remains that after 1996 Yukos began to reclaim the distribution business for itself, and that the former middlemen were steadily losing access to their cash cow.

Vladimir Petukhov, the Nefteyugansk mayor, supported Khodorkovsky's anti-Chechen campaign. In late 1997, Petukhov embarked on his own crusade against the mafia by announcing that he was closing down the city's central market and opening a new, modern market in its place. This was a brave move, because everyone knew that the old market was the fiefdom of Chechen crime groups who provided 'protection' to the traders there (in other words, they refrained from burning down their businesses in return for a regular and substantial cut of their profits). But it was also a financially smart move by Petukhov, because the new market was to be owned and 'protected' by a company that was run . . . by his wife.

When Petukhov was murdered six months later, the media was unanimous in citing the Chechen connection: closing the Chechen protected market was seen as ample motive for a hitman to be hired and the mayor eliminated. It was only much later that the Kremlin elaborated the scenario that would see Pichugin and Nevzlin charged with the murder.

Khodorkovsky, meanwhile, was facing serious resistance from the dispossessed middlemen who had previously distributed Yukos's oil. His aim was to take back the lucrative business under his own wing and bring the considerable profits and tax benefits it produced to Yukos rather than to mafia crooks. And he had a pressing reason to do so.

By the mid-1990s, economic chaos had spread throughout Russia. As businessmen realized the central authorities were floundering under the pressure of change and were increasingly unable to impose the rule of law, the scale of tax evasion throughout the economy rose massively. The Kremlin was being starved of revenue and was having increasing difficulties meeting its spending commitments. Pensions and salaries were going unpaid and strikes were threatening to undermine social cohesion in the country.

The government's response was to create a new Tax Police with unlimited powers to compel businesses to pay up; I remember Russian television in those years regularly showing scenes of armed, masked police squads smashing down doors, making arrests and confiscating companies' assets and records. But the show of institutionalized brute force failed to produce any substantial increase in compliance and the Kremlin turned to other strategies. One of these, as we have seen, was to ratchet up the tax rates on businesses that *were* paying at least part of their dues.

In the oil sector, companies found they were being asked to pay taxes that equalled or even exceeded their entire turnover. It was a ludicrous situation that defied the laws of economic common sense and the oilmen were forced to seek increasingly ingenious methods of staying solvent. Many of these involved schemes to minimize or avoid the punitive taxes the Kremlin was trying to impose; and in this context, the machinations of the mafia middlemen began to look decidedly useful for CEOs like Khodorkovsky. Put simply, the shady wheeler-dealers had created ways of channelling Yukos's oil through various intermediaries that had the effect of avoiding the payment of tax, and Khodorkovsky decided he would like to do the same.

As we saw, the use of ZATOs (Russia's formerly closed cities and regions with beneficial tax rates for big companies wishing to channel their sales through them) was an issue that was to figure prominently in the charges against Khodorkovsky and Lebedev at their trial. In 1996, Khodorkovsky had inherited the differential pricing schemes — he did not invent them himself; he took them over from those who had been operating them previously. Some of the former middlemen were crooks — mafia groups or Chechens. Khodorkovsky took the risk of reprisals by muscling them out. But it worked and — unlike Petukhov — he survived. When during his trial Khodorkovsky was accused of

conniving with Chechen crooks to distribute Yukos's oil, he protested vigorously that the opposite was the case:

I came to Yukos after it was privatized in 1995–96. Within one year, we had managed to rescue a large state company from the domineering influence of bandits, including Chechens. In order to accomplish this, it was essential to establish order. Until a company manages to keep order, it will have problems with criminal elements. It is exactly these measures — especially that of establishing order — that will help deal with banditry in the country as a whole.

Some of the companies that had been distributing Yukos oil in the pre-Khodorkovsky period, however, were not crooks. And at least one of them was owned by foreign investors who did not take kindly to being excluded from the deals they had previously enjoyed. East Petroleum Handelgas was an Austrian-registered company owned by a group of Swiss investment houses. In 1994 they had recruited Yevgeny Rybin, a senior Russian government official who had worked for twenty years in the country's Ministry of Fuel and Energy, to become a vice-president of the company with the specific aim of breaking into the Russian market. Rybin concluded a lucrative contract with the management of Tomskneft, an oil company based in the city of Tomsk, to sell its oil onto the international market. The deal involved East Petroleum investing a large sum of money, \$50–60 million according to East, in Tomskneft.

When Khodorkovsky's Yukos bought Tomskneft in 1997 his first act was to tear up the contract with East Petroleum, devalue East's holding in the company and send Rybin packing. The Swiss owners of East objected strongly to this cavalier treatment. In the summer of 1998 they launched a legal case against Khodorkovsky in the Austrian courts demanding the return of their money plus compensation for lost profits. The total value of the claim against Yukos was \$83–95 million. Rybin loudly proclaimed that he had become 'Khodorkovsky's \$100 million problem'.

On 24 November 1998, two armed men ambushed Rybin's car and fired repeatedly at him with automatic weapons, but he somehow survived unscathed. The following March, his car was again attacked, this time with grenade launchers. Rybin's driver was killed instantly and his bodyguard had both legs blown off. Rybin himself had unexpectedly departed from his schedule to call in and congratulate his nephew on his name-day so he was not in the car. A former paratrooper from Volgograd named Yevgeny Reshetnikov was convicted of the attacks and sentenced to a lengthy gaol term, but those who ordered the attempted murder were never identified.

For his part, Rybin has no doubt who was behind it:

I knew straight away it was Yukos who tried to blow me up. I had an old comrade in the oil business who'd gone to work for Yukos. One day he said to me, 'These guys are not going to give you your money back, you know'. Everyone in the oil industry had

heard rumours of how Yukos used to settle these sorts of problems . . . I'd already had one incident where they smashed the window of my house: luckily I didn't go to the window, because the police later found a loaded rifle in the building opposite. They'd been expecting me to appear so they could shoot me.

Rybin is convinced the order to kill him came from the highest levels in Yukos: 'I had examined all the company's accounts with my lawyers and I calculated that Yukos had been in the money-laundering business to the tune of \$24 billion. I had written to the police and the Prosecutor's Office with the evidence of this. It was obvious: I was a thorn in their flesh . . .'

Despite Rybin's insistent complaints, Yukos managed to defeat East Petroleum's claim against it in the commercial courts. It seemed the Rybin issue was settled. But in May 2003, when the confrontation between Khodorkovsky and Vladimir Putin was becoming increasingly bitter, the case was reopened by the General Prosecutor's Office. This time, the Kremlin decided it *did* know who had ordered the attempts on Rybin's life — it was Yukos, and in particular the company's former head of security, Alexei Pichugin. Pichugin was arrested in June 2003 and brought to trial in 2004.

As well as the Rybin incident, Pichugin was charged with the January 1998 shooting of Valentina Korneeva, a tea shop owner who had allegedly refused to sell up her business when Yukos wanted to buy the premises for its own use. Her husband, Dmitry, was with her: 'It was 21 January 1998', he later recalled. 'We got home about ten o'clock at night and I spotted a man standing on our landing with a raincoat draped over his right arm. I turned my back on him to open our front door and I heard a noise, as if something had fallen down. I turned and saw Valya was lying on the floor. I picked her up, but the man was pointing his gun at me. He said, "You! Keep quiet!" and he walked off into the lift. I rang for an ambulance but it was useless: the bullet had gone straight through her temple.' According to Dmitry, Yukos had wanted to buy his wife's property for \$300,000, but she had held out for the realtor's valuation of \$500,000. He believes that is what got her killed: 'If I'd known what was going to happen', he says, 'I'd have told her to go and give them the place for nothing . . .'

A string of attempted murders, including an attack on a former Menatep employee, Olga Kostina, were also laid at Pichugin's door. Kostina had become a spokeswoman for the Moscow mayor's office and complained that her former employers were pressurizing her to influence mayoral decisions in their favour. An explosive device was planted outside the door of her parents' flat in November 1998. Nobody was hurt in the blast, but shortly afterwards Kostina resigned from her job, citing unbearable pressure on her. According to the prosecution, Pichugin had engaged an acquaintance named Sergei Gorin, a businessman from Tambov, to murder both Korneeva and Kostina, for which he allegedly paid Gorin \$5,000 and a Hyundai jeep. Pichugin was godfather to Gorin's son and had been a longtime friend of the couple. The prosecution's

case was that the Gorins had tried to blackmail Pichugin and that he had had them both eliminated.

Legal proceedings opened in July 2004 and Pichugin was charged with ordering the murders and the attempted killing of Yevgeny Rybin. While the trial was underway, there was a further development in the saga when Leonid Nevzlin informed the Russian courts that Rybin had tried to blackmail Yukos over the Pichugin charges. Reports appeared in several newspapers that Rybin had been hoping to raise enough money to pay off some shady creditors to whom he had become deeply indebted and who were the real authors of the two attacks on him, for which the unfortunate Pichugin was now taking the rap. The hand of Yukos's PR machine was suspected of generating some if not all of the articles.

In March 2005, Pichugin was sentenced to twenty years in gaol. He had denied the charges and refused to testify in court against Leonid Nevzlin or Mikhail Khodorkovsky.

The following month further charges, including the murder of Nefteyugansk mayor Vladimir Petukhov, were brought against him. It was alleged that Pichugin had employed his friend Sergei Gorin to kill Petukhov, and that Gorin had subcontracted the hit to several men. These included Yevgeny Reshetnikov, who was apprehended for the murder, and a career criminal named Gennady Tsigelnik, who were each paid \$5,000.

Inside Yukos there was consternation at the renewed rash of charges against Pichugin. A senior adviser to the company told me that any remaining hope of reaching a negotiated settlement with the Kremlin over the outstanding tax bills and fraud charges seemed to go out of the window:

Now, this couple [the Gorins] that they allegedly murdered came out of nowhere, but the mayor did not come out of nowhere. Everybody knew the mayor of Nefteyugansk had been murdered and always there had been a question about who was responsible and everybody sort of knew, including Khodorkovsky, that if they [the Kremlin] were going there then this was going to be war, no question.

Pichugin was also accused of ordering Reshetnikov and Tsigelnik to beat up Vladimir Kolesov, a rival businessman who was said to have crossed swords with Yukos. Finally, the prosecution alleged that the Yukos bosses had become so exasperated with Gorin's failed attempts to kill Rybin that Pichugin had had Gorin and his wife murdered. The charges were upheld despite the fact that the couple's bodies had never been found and no forensic evidence was produced to prove that they were dead. Leonid Nevzlin was scathing: 'This is the Kremlin's policy of political persecution . . . The Moscow City court sentenced Pichugin on charges of double murder despite the complete absence of any evidence', he said. 'The prosecution could not come up with bodies of the murdered people allegedly killed on Pichugin's order and could not prove the fact of the killing. In reality, such a harsh sentence was given to Pichugin because of his refusal to

give false testimony against me and to help the prosecution continue its false accusations [against me].’

In August 2006, Pichugin was sentenced to a further twenty-four years in gaol, on top of the twenty he had received the previous year. The court ruled that he had acted on the orders of his boss, Leonid Nevzlin, and the judge demanded Nevzlin’s extradition from Israel to face charges in Moscow. In March 2008, having failed to get Nevzlin extradited, the Russian Prosecutor’s Office announced that his trial *in absentia* had begun. A guilty verdict was a foregone conclusion.

A final twist in the murder allegations against Yukos came in late 2006, when Nevzlin’s assistant Eric Wolf received a call from a former KGB/FSB defector who said he had information about the murders that might be of interest to him. Nevzlin agreed to fly him out to Tel Aviv, where the man made a sworn statement before a lawyer.

That statement has never been made public, but I have now seen a copy of it. The contents, if they are accurate, seem to exonerate Nevzlin while allegedly proving that the murders were actually carried out by agents of the Kremlin. ‘I served in the KGB of the USSR and the FSB of Russia . . .’ it begins, ‘in the rank of Lieutenant Colonel in the FSB’s Organized Crime Section (URPO) . . .’ It continues:

The goals and objectives of the URPO were to implement unconventional methods in order to resolve the problems of the President of the Russian Federation and the top echelons of the FSB . . . In July 1998 I was informed by Vladimir Vitvinov of the Internal Security Service of the FSB that . . . the Mayor of Nefteyugansk, Petukhov, had been killed by the Lazovsky organized crime group acting on orders of Antropov and Kamyshnikov, the Deputy Head of the FSB’s Organized Crime Squad. I was informed that the Moscow police had a videotape of FSB man Antropov handing over \$40,000 to the hitman for the murder of the Nefteyugansk Mayor.

The defector’s statement goes on to describe how he was shown the video of Petukhov’s murder being ordered:

On the tape, I saw Alexei Antropov, a commanding officer of the FSB’s Third Department . . . whom I knew personally from our time together at the KGB Military Academy.

Antropov said to the man sitting with his back to the camera that he should go to Nefteyugansk to ‘do’ a certain person. Antropov produced from his bag and put on the table a photograph, some documents, a mobile phone and a package.

Antropov went on to say that on arrival in Nefteyugansk, the man should call the number stored in the cell phone’s memory and he would be met and assisted.

Pointing at the photograph, Antropov said this was the target. His companion asked who the man was. Antropov answered that everything would be explained to him on arrival in Nefteyugansk. His companion asked if this was a political killing and Antropov answered that this was the town’s mayor, Petukhov.

The man asked if they should expect a lot of noise around the hit. Antropov said there would be none. He said there was nothing to fear and the executioner would be safely removed from the scene. Then he handed over the package and said, 'Here is 40,000 for your services. You may count it.' His companion looked inside the bag but did not verify the amount.

The statement finishes with the declaration, 'I hereby swear that this is my own name, my own signature and that everything I have said in this statement is nothing but the truth.' The document is signed Alexander Litvinenko.

If the facts in the statement were true, they would clear Nevzlin and Pichugin of any blame for the Nefteyugansk murder. It is evident why Nevzlin agreed to fly Litvinenko out to Tel Aviv and why he made him swear his statement in front of an Israeli lawyer. But Eric Wolf insists they did not pay Litvinenko for his evidence, and that it was offered to them without any prompting on their part:

It was spontaneously offered. I met him once or twice, and then the third time I met him was at [Boris] Berezovsky's birthday party in January 2006. That is where he approached me and said he had read about the allegations against Leonid, and that he knows it is all bogus because he knows who stood behind some of these crimes.

I asked him if he would be prepared to give us a sworn affidavit. He agreed and I told him to come over to Israel when he could.

He came in April 2006, and stayed in Tel Aviv for two or three days. We paid for his ticket and for his hotel, but we did not give him a penny for it. Nor did he ever ask for any money. He gave us a sworn affidavit, and basically that is it.

Subsequent events were of course to make the document even more controversial. In November 2006, six months after making his statement about the FSB's alleged responsibility for the Nefteyugansk murder, Alexander Litvinenko was murdered in London by former FSB agents. When Litvinenko was poisoned with radioactive polonium poured into a cup of tea he was drinking in a London hotel, Eric Wolf took his testimony to the British police:

As soon as he was murdered, the first thing we did was send a copy of these documents through our lawyer in Tel Aviv to Scotland Yard, via the British Embassy in Tel Aviv, and of course we sent a copy to the Ministry of Justice in Israel, since if we were giving this material to foreign authorities, we also wanted to give it to local authorities. We also made a statement to the media that we had met with Litvinenko, and that Litvinenko had handed over to us material that incriminated the Russians in the crimes they had charged Yukos with.

There was an immediate and angry response from Moscow. Without addressing the allegations of FSB complicity in the Petukhov killing, the Russian Prosecutor's Office announced that it wanted to question Leonid Nevzlin in

connection with the murder of Alexander Litvinenko! Eric Wolf says the motive was to discredit Nevzlin and to discredit the alternative explanation of who killed Petukhov:

Around Christmas 2006, Leonid and I were in New York when we found out that the Russian prosecution had said Nevzlin is implicated in Litvinenko's murder.

I asked myself, why they would do such a stupid thing? Because Leonid was in Israel . . . and Litvinenko was over there [in London]. They had not even met.

I mean, Litvinenko came here for three days and he bumped into Leonid in the corridor. They said, 'Hi, how are you doing?', and Leonid thanked him for what he was doing, and that is it. He was spending the time with me, not with Leonid. Litvinenko was trying to help. Why would we murder him? Why would the Russians say such a thing? . . .

Then it clicked that it is because they were really afraid of *what Litvinenko might have given us*, and they wanted to discredit Leonid.

They never actually went ahead with the charges [that Nevzlin murdered Litvinenko], but they were afraid if Leonid was in the US he would be meeting with politicians, talking about the Litvinenko thing, and they wanted to discredit him prior to those meetings. So I said, 'OK, now I see!'

The random nature of Moscow's accusations over the Litvinenko case is well documented: the Kremlin announced that it suspected a whole series of people, most of them exiled oligarchs or political opponents of the Putin regime. The aim seemed to be to distract attention away from Andrei Lugovoy and Dmitry Kovtun, the ex-KGB men whom Scotland Yard indicted for the poisoning. Like the others, the charges against Nevzlin were fanciful and were never followed up. Suspicions were later voiced that Litvinenko's willingness to spill the beans about the Nefteyugansk killings may have contributed to the Kremlin's motives to have him killed.

Three months later, at the beginning of January 2007, 64-year-old Yuri Golubev died in London: he was a senior Yukos executive and longtime partner of Khodorkovsky and Nevzlin. His body was flown back to Russia; the cause of his death was never confirmed.

Hostages?

The Khodorkovsky–Lebedev trial and the case against Pichugin stole the headlines in Russia and abroad. But they were far from the only ones to face charges. According to Yukos’s own calculations, the Russian Prosecutor’s Office arrested or issued arrest warrants for over a hundred people connected with the company and its affairs. Fifty-six of them were formally charged and tried, either in person or *in absentia*. They range from senior officials to low-level employees, from directors and middle management to legal advisers and accountants. So wide was the Kremlin’s net flung that it became almost incredible that so many disparate people should have knowingly been involved in the tax evading ‘criminal group’ alleged by the Prosecutor’s Office. According to the Yukos executives I have spoken to, the authorities’ aim was to intimidate the company’s employees into testifying against their bosses. When people fled abroad, as Nevzlin, Brudno, Dubov, Shakhnovsky and others did, their friends and colleagues who remained became potential hostages who could be used to put pressure on them.

One case that seems on the face of it to fall into this category is that of Svetlana Bakhmina. She was a lawyer in her mid-thirties who had recently become deputy director of the legal department of Yukos-Moscow. On 7 December 2004, as the trial of Khodorkovsky and Lebedev was becoming increasingly complex, she was woken at 5 a.m. by the sound of her apartment door being smashed in. Her husband was away on business and Bakhmina was terrified for the safety of her two sons, then aged 2 and 5. The masked men who poured into the bedroom where she was huddled with her children were not criminals — they were MVD (Interior Ministry) troops who had come to arrest her.

Bakhmina was hustled into a waiting police van and taken to the Pechatniki detention centre on the outskirts of Moscow. There she was amazed to be charged with ‘property theft as part of an organized crime group’ amounting to \$300 million: as a middle-ranking member of Yukos’s large legal team, she had had no contact with the company’s financial planning schemes and was at a loss to understand what the investigators were talking about. Bakhmina was interrogated continuously for nearly twelve hours and eventually collapsed. She was resuscitated and put into a cell where she was forbidden any outside contact until the following day, leaving her family in a state of alarm over her fate.

Because of Bakhmina’s genuine lack of involvement with the company’s tax schemes, the Yukos directors expected the Prosecutor’s Office would realize their mistake and she would be quickly released. In fact, she was held for over a year without trial and repeatedly refused bail despite having young children to care for. For several weeks, she was denied the right to make phone calls to

her sons and went on a hunger strike until the prison governor relented.

When the state released details of her alleged crime, the case seemed to hinge on the fact that her signature appeared on a document transferring some shares of the Tomskneft oil company to the Yukos executives who bought Tomskneft in 1998. It was flimsy evidence of wrong-doing, especially as Tomskneft refused to file any complaint and stated that, on the contrary, it did not believe it had suffered any loss.

When she was finally brought to trial in April 2006, the court sentenced Bakhmina to seven years in a maximum security gaol. The sentence shocked even the most hardened lawyers and the media were unusually critical of the state's treatment of her. The defence lodged an immediate appeal. Russian law at the time offered the possibility of an amnesty to mothers with young children, if their prison term was six years or less. So there were grounds to hope the authorities would take the chance of a face-saving compromise that would see her released on parole. With exquisite cynicism, the Court of Appeal agreed to reduce her sentence . . . to six and a half years.

The ruthless treatment of Svetlana Bakhmina suggested she was being made to suffer for the alleged offences of the people she worked for. The Kremlin was particularly irritated that her boss, Yukos's general counsel Dmitry Gololobov, had fled to London where a British court refused their demands for extradition. Yukos lawyer Robert Amsterdam claimed Bakhmina was little more than a political prisoner:

We talk about Svetlana all the time in every capacity we can. She is the most tragic part of the case. She is an admitted hostage. The Procuracy has admitted that she is a hostage of the Kremlin. They want the former general counsel back and they are using her as a pawn to get him back. It is a terrible situation. She is a young mother. She was arrested at five in the morning. She spent many months not even being able to speak to her children. It is a case that defies the imagination. It is just incredible to me — for essentially, at its worst, some sort of economic crime relating to some shares she may have endorsed.

When President George W. Bush visited Russia in July 2006, Bakhmina was still arguing her case for parole. In St Petersburg, Bush had a meeting with opposition figures including Irina Yasina, the head of Khodorkovsky's Open Russia Foundation. Yasina mentioned the case to him and Bush agreed to raise it in his talks with President Putin. If he did so, it had no noticeable effect: Bakhmina remained in gaol.

Antonio Valdés-García was a Spanish oilman in his early thirties who went to Russia in 1997 to become head of Fargoil, a Yukos subsidiary. He fled to Spain after Khodorkovsky's arrest in October 2003, but a year and a half later agreed to return to Moscow. He went back because the Prosecutor's Office had given him detailed assurances that he would not be arrested. They had told him they needed to question him as a witness and if he did not come to talk to them, they

would ensure he never got another visa to come to Russia. Since his long-term girlfriend lived in Moscow, and since he owned a flat there, Valdés-García accepted the invitation.

When his flight from Madrid touched down at Moscow's Sheremetevo airport on 9 June 2005, he was met by officials from the FSB and Interior Ministry police who told him they believed his life was under threat from security men sent by Yukos to stop him talking to the authorities. The FSB took Valdés-García to a Special Forces base outside Moscow to interview him. Their interview methods were clearly quite robust, because in early August, Valdés-García reportedly attempted suicide: he fell from a second-floor window of the building he was being held in and suffered multiple fractures of both legs. The police took him to hospital in the town of Istra, 30 miles west of Moscow and told doctors he had been involved in a road accident. During his treatment and convalescence, Valdés-García remained under police guard and attended further interview sessions on crutches. In April 2006, he and two other Yukos managers were brought to trial in Moscow's Basmanny Court, where they were charged with involvement in the embezzlement of \$13 billion and the money-laundering of \$8.5 billion. All three men headed Yukos subsidiaries that were registered in tax exemption zones (ZATOs) in different parts of Russia and all three were now being held responsible for the differential transfer pricing schemes that had allowed Yukos to minimize its taxes in the late 1990s and early 2000s.

During the trial, the judge asked for a psychiatric report on Valdés-García whose mental health appeared to have deteriorated to the point that he did not understand the charges against him. Before that could happen, events took a dramatic turn. In late December 2006, the trial was suspended for the New Year holidays and Valdés-García was taken, still under police guard, to his flat in the centre of Moscow. The next day, the guards reported that Valdés-García had locked them in the flat and absconded. Given the fact that Valdés-García was still walking with crutches — and that he was being guarded by several burly minders — the trial judge said she was issuing a warrant for legal proceedings against the guards. She also gave the FSB instructions to search Moscow's hospitals and morgues.

Valdés-García seemed to have disappeared from the face of the earth. Various theories circulated about his disappearance — that he had somehow managed to escape and return to Spain; that he was living in hiding somewhere in Russia; or that he had been murdered to prevent him spilling the beans about Yukos's offshore tax schemes. This last theory was energetically promoted by pro-Kremlin journalists, who suggested Valdés-García had agreed to turn state's evidence and testify that Mikhail Khodorkovsky and Platon Lebedev were involved in the money-laundering Fargoil was charged with. The implication was that Yukos had therefore had him silenced.

In support of this scenario they cited the fact that Valdés-García's co-defendants, Vladimir Malakhovsky and Vladimir Pereverzin, who both carried

out the same functions as Valdés-García, were subsequently sent to gaol for twelve and eleven years, respectively. But in April 2009 Valdés-García unexpectedly surfaced in Spain and was arrested on the basis of Russia's Interpol warrant against him. Moscow demanded his extradition, but the Spanish government turned down the request citing the 'torture' he had been subjected to in Russia, the likelihood that he would not receive a fair trial there and the possibility that he would be subjected to political persecution.

Even more tragic than the Bakhmina and Valdés-García cases was that of Vasily Aleksanyan. He, too, was a Yukos lawyer and had appeared as part of the defence team for Khodorkovsky and Lebedev. Born in 1971, Aleksanyan graduated from Moscow University in 1993 and won a scholarship to Harvard Law School. In 1996, he was voted the School's best foreign student and seemed set for a distinguished law career. In 2001 he was voted Russian lawyer of the year and went into private practice in Moscow. His work as an attorney in the Khodorkovsky trial was so impressive that Yukos appointed him chief liaison officer with the Russian authorities after the departure of Alexander Temerko to London.

In March 2006, with other executives resigning or in gaol, Aleksanyan was invited to become an acting vice-president of the company. Despite having received warnings from state prosecutors to 'stay well away from those people', he accepted the offer and took up the position on 1 April. Five days later, armed police came to his home and arrested him in front of his wife and 4-year-old son.

Aleksanyan was held in high security prisons and denied regular contact with his family. He was not brought to trial, but the charges brought against him were very similar to those levelled at Svetlana Bakhmina, namely that he had signed papers relating to the transfer of shares in Tomskneft.

Shortly after he was arrested, he was given a medical examination that included the taking of blood samples. It was later revealed that he had contracted HIV/AIDS.

Aleksanyan's condition deteriorated rapidly in gaol, to the point where doctors were concerned he might not live to face trial. Russian law states that in pre-trial detention he should have been provided with antiretroviral therapy to treat his condition, but for two years he was denied medical treatment. Repeated injunctions from the European Court of Human Rights requiring that Aleksanyan be hospitalized in a specialist civilian AIDS clinic were ignored. In February 2008, Mikhail Khodorkovsky went on a hunger strike in his prison cell to draw attention to the urgency of the case and in early March a court announced that Aleksanyan could be taken under guard to a local clinic for treatment. When his family were allowed to visit him, they were shocked to find him chained to his hospital bed. He gave them a written statement in which he said investigators had told him he would not be given medical treatment until he agreed to testify against Khodorkovsky and Lebedev in the new trial that was being prepared for them. According to Aleksanyan, the authorities offered

him a straight trade-off: if he would testify against Khodorkovsky, his medical treatment would begin straight away:

I refused this offer. I would not cooperate with them. I will not commit perjury. And I won't lie. I will not incriminate innocent people, no matter how awful my condition is today. I refuse to buy back my life in such a way. So help me God.

More than a year ago, a forensic medical examination revealed I was suffering from a fatal illness. I continue to be imprisoned unlawfully, without receiving essential chemotherapy. As a result I am now for all intents and purposes blind.

I have been brought to my deathbed through the conscious, well-planned joint actions of prosecutors, investigators, judges and prison doctors. They have not ceased their attempts to make a perjurious false witness out of me and to obtain testimony from me that would discredit the other managers of the Yukos company — for all intents and purposes in exchange for my life.

How can this be happening in the twenty-first century? I am 36 years of age and I have studied at the world's two most prestigious universities. Never did I even think that this could happen to me. I had a life; I was bringing up a child. But then someone decided to take me and destroy me. This is something apparently easily done in our country.

Society remains silent and I think this is outrageous because any one of you could end up in my place. Society condemns itself by its silence.

Aleksanyan's case was taken up by lawyers' associations in several countries, but the Kremlin seemed immune to international pressure. In fact its lack of respect for lawyers, Russian or foreign, had been a feature of the Yukos affair since it began in 2003.

In September 2005, when Khodorkovsky's appeal against his nine-year sentence was heard in Moscow's Meshchansky Court, his legal team was threatened and harassed. One of them, the Canadian lawyer Robert Amsterdam, was roused from his bed in a Moscow hotel and told he was being deported:

At one o'clock in the morning on 22 September, five members of what I believe to be the FSB came to my door, demanding to take me to the station. I refused to go, and they then demanded my visa and my passport. I provided that after some discussion. They told me my visa sponsor had decided my trip was over and they were going to expel me from the country; that they would give me until the time of the 5 p.m. flight to London — and if I wasn't on the flight, I would be arrested.

Bob Amsterdam furiously denounced the Kremlin's contempt for lawyers and the law. Russian justice today, he says, is little better than it was under Stalin:

Let's be clear. The Russian criminal courts are problematic historically. The conviction rate in Russian courts is presently over 99 per cent, particularly in cases where there are no juries, and [they are] notoriously subject to executive control — let alone in political cases, where the control is absolutely intense.

What we've seen in the Khodorkovsky case is such a complete breach of the rule of law that it is actually difficult for me to even call these courts. This is a show trial without the sophistication of the original show trials of the 1920s and 1930s. The Procuracy has a virtual handmaiden in the judges who work with them. The amount of control the Prosecutor is given over the process is immense.

The Khodorkovsky case . . . was begun as a propaganda campaign launched by instruments of the state . . . A black PR campaign. What we were told actually happened, was that in the FSB office there was a directive to 'get Khodorkovsky' . . . so they took all of the old files, everything relating to Yukos over the last dozen years, put it on a table, and tried to find those files they could artificially resuscitate.

One of the key elements in political cases often is that they normally relate to charges or incidents that are very old. And clearly in our case all of these allegations were — many of them — nine or ten years old. The Apatit privatization that formed the basis of the charges ended up by the end of the trial having been lost by the Procuracy simply on the basis of the statute of limitations.

The attack on Amsterdam happened on the very day Khodorkovsky's appeal was due to be decided in court. On the same day, the Russian Prosecutor's Office requested that his Russian lawyers — including Anton Drel, Karinna Moskalenko, Yuri Schmidt, Denis Dyatlev, Elena Levina, Igor Mikheev, Albert Mkrtychev, Vladimir Sergeev and Irina Artukhovoï — be stripped of their law licenses. The only member of the team not targeted was Genrikh Padva.

Bob Amsterdam says it was clearly a concerted campaign to frighten off the legal establishment from defending the Yukos prisoners:

Listen, they threw me out of the country on the very same day they decided to attack all of the lawyers in the case. They had already attempted to disbar Olga Artyukhova, and they were moving against all of the other lawyers, I gather, except for Mr Padva . . .

What is frightening is the speed with which they [moved] against these lawyers and the use by the Procuracy of the 'big lie' tactic to try to argue that lawyers who are defending their client are somehow acting in a manner not conforming to law when they attempt to serve the interests of justice . . .

Clearly, the impunity with which the Kremlin are operating has to be addressed by Western governments. We have to bring home to Western governments that this represents a clear danger for them and not just for Khodorkovsky.

To its credit, the Moscow Bar Association refused to submit to the pressure from the Kremlin and replied that it would not disbar the Yukos lawyers. Many of them went voluntarily into exile and Bob Amsterdam has not been able to get another visa to return to Russia.

It was remarkable that the only lawyer on the defence team who was not attacked by the Kremlin was Genrikh Padva. He was the senior legal counsel who had dissuaded Khodorkovsky from making his trial a political *cause célèbre* and suggested that if he refrained from making a fuss, he was more likely to be

acquitted. It was advice that went contrary to the instincts of the other lawyers and which ultimately proved to be a serious mistake. Several of those involved in the legal proceedings have questioned Padva's motives. He was known to have had good relations with several Kremlin figures and there was a suspicion that they may have tricked him into keeping his client quiet during the trial in order to convict him without inflaming international opinion.

One senior American adviser to Khodorkovsky's legal team spoke to me on condition of anonymity about his suspicions of Kremlin double-dealing:

Adviser: You need to be aware there was a great deal of discussion about the trial and how he was going to defend himself and how his lawyers were going to. And he chose Padva as his chief lawyer and Padva convinced him — this is obviously not first hand; I was not present when Padva was talking to Khodorkovsky; my job was essentially to work with the Western lawyers . . . but we all viewed the arrest as politically motivated and we argued that the trial itself should be fought in a Western political sense. That is, calling witnesses from the government, the people who were responsible for making the decision to arrest him and take over Yukos. Many of the people at the highest levels of the government who did have a hand in this could have been called as witnesses. We argued for that and they totally dismissed it.

There was always a great deal of tension between the Western lawyers and the Russian lawyers. We argued that it was a political case and it should be fought as a political case. But Padva, who was hired by MBK [Khodorkovsky] to do this job, convinced MBK that if he just rolled over and didn't do anything to annoy the authorities that at the end of this he would be freed. That in other words, if they didn't make a fuss, then they'd go through the motions . . . they'd go through the trial and at the end he would walk out and that would be the end of it. They were expecting a 'not guilty' verdict. They were shocked when it didn't happen. We thought that was very naïve.

Sixsmith: Even at the time you thought that?

Adviser: Yes. This whole thing had gone way beyond the point where they were going to turn back. There'd been a whole number of initiatives to try to get this thing negotiated and over with. But when it became clear that they weren't negotiating, then it certainly became clear to us that they were never going to just let him go. So the only people who were surprised were a couple of the lawyers. I don't know whether MBK was surprised or not . . . Although I think he probably hoped and wanted to hope that Padva — Padva had this reputation for being able to fix these things somehow, not necessarily with money, but —

Sixsmith: Contacts?

Adviser: Contacts; he was the fixer.

Sixsmith: Was he viewed as having good contacts with the Kremlin, with the authorities?

Adviser: Yes. That's why they hired him. Even at the time he was hired there were people who said, 'Why are you hiring him?' Yes, he was a lawyer during the Soviet times when in those days you could negotiate an end to something and that might have made some sense, but . . .

Sixsmith: Did you get any sense that there might have been a double game going on? We spoke about Voloshin who was giving reassuring signals that turned out to be false. Could there have been something similar with Padva?

Adviser: Yes. We often speculated about who he was really working for, because they did nothing to defend Khodorkovsky — just sitting through the trial when on half the charges the statute of limitations had run out or they didn't make sense. Again, I'm not one who says Khodorkovsky's a saint. I'm perfectly aware that he isn't, but I also think that the trial and this whole thing is political. This is not about enforcing the law. This is about political retribution.

Whatever the motives behind it, the defence that was offered in the Khodorkovsky case did not prevent the court from handing down something close to the maximum sentence permitted by law. It may well have been that the verdict and the sentence were pre-determined in any event. When it came to the final day of his appeal against his nine-year sentence, Khodorkovsky hinted strongly that he did not believe the court could — or would — go against the instructions of the Kremlin Siloviki:

It is easy to see that I am not guilty — I was found guilty by a bunch of bureaucrats, not by a court! These bureaucrats convinced the authorities that funding for the political opposition had to be curbed, and also tried to bite off parts of Yukos, the best, the biggest company in Russia.

The Meshchansky Court did nothing but parrot their decisions. These have nothing to do with Russian justice and are a disgrace to Russia . . .

I want to appeal to the esteemed court and all those present here today: remember that Kremlin officials come and go. The people who today are plundering Yukos and issuing unlawful orders to this court will not last forever. They will go off to the West in a couple of years to enjoy themselves. These unscrupulous people don't care a fig about honour, dignity, law or the motherland.

I would hate to see the reputation of this court and the Russian judiciary destroyed by the desires of a handful of bureaucrats. Let's think about the future — the next generations will gauge us by how we act now . . .

In the event, the Meshchansky Court reduced the sentences of Khodorkovsky and Lebedev from nine years to eight. With parole theoretically available after serving 50 per cent of their prison term, it looked for a brief moment as if both men could be eligible for early release in 2007 — Lebedev would have served four years by July 2007 and Khodorkovsky by October 2007.

It clearly would not have pleased the Kremlin, however, to have potentially dangerous political opponents at large before the March 2008 presidential elections. So in February 2007, before the question of parole could be considered, the Prosecutor's Office announced it would be bringing a slew of new charges against the two men. They would be accused of embezzling and laundering up to \$25 billion during their time at Yukos. The offences, said the Prosecutor, carried a sentence of an extra fourteen years in gaol.

There could be no question of early release while such serious charges were pending.

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In the camps

On 16 October 2005 Prisoner Mikhail Borisovich Khodorkovsky joined the other 886,361 convicts in Russia's vast network of gaols and labour camps traditionally known as the gulag. Of all of them, he was undoubtedly the most famous, possibly still the richest and, in the eyes of the Kremlin authorities, by far the most dangerous.

With 766 penal colonies to choose from, and notwithstanding the provision in law that a prisoner should serve his term in a facility close to his home town, the Russian Interior Ministry elected to send Khodorkovsky to facility number YaG14/10 in the Chita region of Siberia, 3,774 miles from Moscow. To visit him, his lawyers and family faced an eight-hour flight to the nearest town, Krasnokamensk, followed by a seven-hour car journey in temperatures that hover between -20° and -30° Celsius. While on the face of it he might count himself lucky to be serving his time in a medium-security camp — Platon Lebedev was sent to a high-security facility in the Arctic Circle — Khodorkovsky's penal colony was built on the site of a former uranium mine where prisoners are exposed to constantly elevated levels of radiation, nine out of ten inmates suffer from at least one chronic disease, possibly caused or exacerbated by the presence of radiation, and one in three has a serious contagious infection such as tuberculosis or HIV/AIDS.

The thousand or so inmates in Chita sleep in barrack-style buildings and are required to perform either manual labour or work in the camp's services, including kitchens, laundry and library. Continuing the model prisoner behaviour he adopted during his trial and appeal proceedings, Khodorkovsky began his time there by offering to give chemistry lectures to those inmates interested in furthering their education. The camp governor consulted Moscow and turned the offer down.

Within a month, prisoner Khodorkovsky was in trouble. His first offence — drinking tea in a room reserved for senior inmates — got him sent to solitary confinement for a week; his next — failing to stand with his hands behind his back — saw the punishment doubled. The punishment cell where he served these sentences is known as the disciplinary isolator and measures around 6×12 feet. It has a concrete floor and small window. On the wall, a wooden bunk is folded up during the day. A low-wattage light bulb behind a toughened glass panel above the cell door shines round the clock. It is cold, humid and silent: virtually no outside noise penetrates its walls.

In early 2006, Khodorkovsky committed an even more serious breach of regulations: he was found with prohibited literature in his prison locker.

The literature in question was actually two official documents from the

Russian Justice Ministry, setting out the rights and obligations of prisoners in the state correctional system. They had arrived in a letter from his lawyer, which had been vetted by the prison censor before being delivered to him. Part of the censor's obligations is to remove prohibited materials from convicts' mail, but on this occasion the 'dangerous' literature had mysteriously been allowed to slip through. Even more strangely, a search of prisoners' lockers was carried out just an hour after the mail had been distributed, and the guards went unerringly to the location of Khodorkovsky's seditious documents. His punishment was fixed at four weeks in the disciplinary isolator. Infuriated by the underhanded way he had been set up, he embarked on a hunger strike. He was released back into the general prison after twenty-five days of his twenty-eight-day punishment.

During the night of 13 April 2006, a convict known as Kuchma attacked Khodorkovsky as he slept in his barrack bed. Using a dagger that had been created by cutting and sharpening an ordinary kitchen knife, Kuchma stabbed him twice in the face: he told the guards that he had been trying to gouge out the sleeping man's eyes, but it was dark and he had missed his target. Khodorkovsky needed five stitches to his face.

Kuchma confessed his crime to the prison authorities: he was given an official reprimand and ten days in the punishment cell. His victim fared considerably worse: the prison governor decided he would be moved indefinitely to solitary confinement 'for his own protection and safety'. Khodorkovsky's lawyers protested and told a news conference that they believed the whole operation had been staged to get their client into an isolator cell. They produced a former inmate of the prison system to testify why they might have done this: 'Of course it's better to be in the barracks', said the man. 'It's better not to take chances: you never know where the threat may come from. In the barracks, there will at least be witnesses, but in solitary confinement there can be no witnesses whatsoever . . .'

The price of the bad behaviour by prisoner Khodorkovsky is that his prison record was marked with a series of official reprimands, showing the offences he had committed and virtually eliminating any chance he might have had of getting parole.

Like all medium-security prisoners, Khodorkovsky was allowed two family visits each month and his wife and mother took it in turns to fly to Chita. His mother spoke of her anxiety over his health and her fears that he would be subjected to renewed physical violence:

He looks very pale. He probably doesn't get enough exercise. He goes without lunch. He's lost weight, of course. But he never complains . . . He's very tough psychologically. All the time he's writing something, to judge by the number of notebooks he asks for.

When I go to visit him, you wait to enter. It's a big place — you go to the director, you wait for him to see you, you wait while he writes out your pass . . . then they give you an escort, you cross all those courtyards, through some buildings, up staircases, back and forth . . .

The visit ends up being just over two hours. It depends on how fast I can run up all those stairs. There are three of us sitting in the visitor's room at the prison: apart from being constantly observed and our conversations recorded, the guard sits next to us all the time. The table's here, we sit opposite and the guard sits to one side . . . How can you talk, what can you discuss?

When I begin asking about his everyday existence he says, 'Let's not waste time on that. You know I'm indifferent to home comforts. Everything here suits me. It's OK.'

Misha can do everything — wash clothes, keep the place clean, and do the washing up. So living conditions don't bother him. They've got a bad TV set. I wanted to buy a new one but the administration won't let me. There's no refrigerator . . .

As a Russian citizen, I am very proud of my son; as a mother, I die every day from fear of what they are doing to him.

For his part, Khodorkovsky's letters to his family remained remarkably upbeat despite all his tribulations:

You can't do as much exercise as you'd like — there's too little room and only a one-hour walk daily. But I'm trying to keep fit. I read books, fiction and history books; I watch TV; answer letters; I think. In general I try to keep my mind in shape. Books arrive all the time. I do a lot of reading. Journals and newspapers come in piles — though sometimes I don't want to read them; it's better to remain ignorant of it all . . . A lot of people write to me from everywhere, from Russia and abroad. There are almost no poison-pen letters. Everyone sympathizes, some offer support and some ask for help. There's little I can do now [to help people] . . .

Most of all, Khodorkovsky says he misses his family and his children. His wife Inna took her husband's arrest badly: she was always a private person and has become very protective of her daughter and twin sons. Khodorkovsky's eldest son Pavel, from his first marriage, is in his early twenties and has been living in the US where he works as an IT specialist. When he asked if he should come back to Russia, his father was very much against the idea. He told Pavel that the son of the oil tycoon Mikhail Gutseriev had died in suspicious circumstances after his father sought political asylum in London, and he did not want the same happening to his children.

Together with Anton Drel, Khodorkovsky's main point of contact with the outside world is now the young human rights lawyer Karinna Moskalenko who rose to prominence as part of the legal team at his trial and appeal. Fiery and strong willed, she strikes me as exactly the right sort of character to stand up for his — and for her — rights:

Moskalenko: Well, you should just know my code of behaviour. Many lawyers in Moscow, when we go to a prison, prefer to go with me, because as soon as somebody comes to me and says, 'Show your papers, show your pockets, take off your clothes', I say, 'What on earth is this? Call your boss!' I really am ready to tear to pieces anyone

who dares to trample other people's rights. From the very beginning, I went to the chief of the prison [in Chita] and I informed him exactly who I was and what I was doing. They decided they preferred never to harass me again!

Sixsmith: So when you see Khodorkovsky, are you given a separate room?

Moskalenko: They pretend it's a private room, but we can always see the man through the window at the door, and we always know that everything is recorded. So with the papers this is what we do: we cover them by hand; we write to each other and show what we have written to each other; and we read it like this, because we know that all the words and all the pictures are being recorded. We found a way to write it in pencil, and then erase it!

One day they forbade Khodorkovsky to have a pencil and an eraser. And they asked me if I had an eraser with me . . . and I said, yes I do, and I am going to keep it! Are you going to try to take it off me? Is it a prohibited object? Just you try! This is the way it still goes on: he is not allowed to keep an eraser, but I am allowed one.

Sixsmith: So it's difficult for you to have a private conversation?

Moskalenko: Yes. It is a total violation of the right of confidentiality, and of lawyer-client privilege — I mean, everything. In the case of many lawyers, their papers were seized after their meeting with the client, but I always say, let them try this with me! Just let them try! Let them try, and then they'll see what I will do! I asked them how they would then explain that . . . and what will the European Court have to say about that!

Moskalenko is such a forceful, positive character that I am sure Khodorkovsky draws strength from her regular visits. She says they still manage to find laughter in their meetings despite the seriousness of the circumstances:

Moskalenko: We always have a laugh when we are discussing various issues and questions. Later on, when I look back on a meeting, I always think, 'Well, we laughed such a great deal during the meeting.'

I would not say the mood is a good mood. One can say a good mood only when it really is good; but his mood is the right kind of mood, the right kind of positive energy. As if he says to me: 'Yes, I am suffering, but I am acting, I am discussing, I am living, I am living a full life.' . . . A full life. I was pleased with that; that gave me a lot of joy.

Generally speaking, sometimes he surprises me; he is full of surprises for me. Sometimes, I am genuinely surprised when we are discussing things. We laugh about how the case is going — how the authorities do not know what to do with us, how they are always in a hurry. Sometimes they say, 'no not now', and they are slowing things down; then at others, they are suddenly in a hurry again.

What you can see is puppets whose strings are being pulled by somebody. You cannot see who that is, but you know that someone is pulling their strings, because it is so unpredictable. And we are laughing about their unpredictability, because after all he is

in prison, and I am a humble lawyer who cannot assist her client as much as I want to assist him. I cannot do anything, and he is just a prisoner, *but we are free compared to the perpetrators of this injustice!*

Moskalenko is passionate about her job and passionately believes in the case she is making on behalf of Khodorkovsky. Before meeting him, she had worked with legal aid cases and people who could not afford lawyers. So at first, she told me, she had been wary of ‘this rich man’ who wanted her to help him:

Moskalenko: In dealing with human rights cases, you normally defend hopeless, moneyless people. And suddenly, in [early] 2003, people approached me saying that Khodorkovsky wants to see you and speak to you; he is doing many human rights programmes and Open Russia, and have you heard about him?

I said, no! I had probably heard his name, but I had always thought this was something from the big business world, and far removed from my province.

In 2003 he was increasing his assistance to human rights groups connected with Open Russia, and they were looking for better ways to assist the human rights community and develop the movement.

At that time we had become quite famous . . . at least among a restricted circle of people, because we were mainly dealing with prisoners’ rights and the right to a fair trial. And people who had problems with the judiciary, with arrests, or with detention, approached us.

But I said I do not see any point in speaking to this rich man!

When Moskalenko eventually did agree to meet Khodorkovsky, she was struck by his commitment to human rights issues in Russia; but if he wanted her to help him, she was determined to make him pay:

Moskalenko: I said, OK, if this is a rich company then it can pay up! And if they would give three-fourths of their fee for the restoration of one Orthodox Church I would be happy . . . I never tell people this!

And they said, ‘Let us ask the board of directors’, and then they came back to me, and they said, ‘You know, the board of directors said that it was up to her to decide if she wants this. Let us make this goodwill gesture.’

[Then] after all our conversations about human rights issues, he asked me, ‘Do you know about my own situation?’

And I said, ‘To be honest, before, I had no knowledge of it, but now I have learned something and I think it is very difficult.’

And he said, ‘Do you think I can be arrested?’

I said, ‘I suspect that today in Russia nothing is impossible . . . Previously, I was worrying about poor people, but today I cannot exclude the possibility that anyone can be arrested.’

And he said, ‘But my business is clean, I was doing a lot to ensure company transparency, and so on.’

I said, ‘Nonetheless . . .?’

When Khodorkovsky was arrested, Moskalenko stood by him. She helped with his appeal and visited him every month in the penal colony in Chita. When the state announced in February 2007 that it was considering new charges against Khodorkovsky and Lebedev, she took on the task of coordinating the tactics for his defence. When it was belatedly announced that the case was being postponed until after the March 2008 presidential elections, Moskalenko says their hopes soared: perhaps Putin was responding to international pressure; perhaps he had decided to dump the charges in the lap of his successor; perhaps they may never come to trial . . .

Moskalenko: I am a very intuitive person, you know. Even before we found out about that [postponement], I suddenly said, 'Mikhail, Mikhail Borisovich, do you believe me? I am trying to envisage a future trial and I just do not see the trial taking place!'

And he said, 'What do you mean?'

And I said, 'I have a very strong intuitive feeling. I can see myself going down this corridor, seeing this person, seeing this, seeing that . . . and, you know what, I cannot see this trial, I just do not see it. I do not see how it can happen. It is not something I can envisage.'

And as soon as I came out of the prison I received a telephone call, asking me whether I knew that they had decided to postpone the preliminary investigation until 2 May [2008]?

I said, 'No! Ah!'

I continue laughing now, but this laughter was sad at the same time . . .

I always say to him, you know, 'You have to be released. You just have to . . . I can't retire because of you!'

Prophet in a prison cell

Karina Moskalenko's description of Khodorkovsky laughing and relaxed in his prison cell is far removed from the obsessive, relentlessly driven man who spent his life building and fighting to protect the vast empire that was Yukos. Having suddenly and completely lost his worldly possessions and status, he appears to have undergone yet another epiphany.

The change that came over Khodorkovsky in gaol was political, philosophical and possibly religious. He issued a series of open letters and four major treatises: 'Liberalism in crisis' in March 2004; 'Property and freedom' in December 2004; 'A turn to the left' in August 2005; and 'Left turn, Part Two' in November 2005.

His writings contain his reflections on the Yukos case itself and his views on contemporary Russian politics; they explain his thinking on philanthropy and social engineering, and at times they verge on the mystical. Like Russian philosophers through the ages, Khodorkovsky expounds his concept of Russia's sacred destiny and the role of the individual — specifically himself — in shaping it. When he outlines the concepts of suffering and redemption, both for himself and for his country, he echoes themes that are familiar from Tolstoy and other Russian classics. He is fond of quoting the Gospels and, even though he does not wish publicly to acknowledge it, he has discovered religion in gaol — the Russian Orthodox Christianity of his mother, rather than the liberal Judaism of his father.

A survey of Khodorkovsky's prison writings reveals a man initially tormented by the perceived injustice he has suffered, then comforted by the escape from material possessions and material worries, and finally enthused by the belief that suffering and martyrdom will open the way to regeneration. His spiritual path has taken him from aggressive materialism and obsessive belligerence to quietude in poverty and hope for the future.

It is perfectly feasible that now 'he laughs a great deal'.

In discussing Khodorkovsky's writings, it is important to remember that all have been transmitted through the intermediary of his lawyers, mainly Anton Drel, Karinna Moskalenko and Yuri Shmidt. Some documents they have smuggled out in written form; others they have committed to memory and reconstituted *post facto*. His more controversial views — mainly those on the Yukos case and on politics — have been contested by his former colleagues, who suggest they may have been distorted by the intermediary channels they have passed through. But in general, there is enough undisputed substance in his writings to trace a fascinating journey.

In December 2004, fourteen months after his arrest, Khodorkovsky's 'Property and freedom' explained the fundamental change in his world view: 'Following

in the footsteps of many prisoners, both known and unknown, I must say thank you to prison. It has given me months of time for deep contemplation, and time to form a new outlook on many aspects of life.' The sudden loss of his material possessions, he says, has opened his eyes to the possessions that really matter — freedom, self-knowledge and faith:

Yes, over the past year my \$15 billion fortune once referred to by *Forbes Magazine* has shrunk practically to zero, and soon it will be absolutely zero. However — though this may seem strange to many people — it will not be unbearably painful for me to give up my personal wealth. I have already realized that owning assets, especially large amounts of assets, does not make a person free at all. As a co-owner of Yukos, I had to make enormous efforts to protect this wealth. And I had to impose limits on myself so that this wealth would not be jeopardized. There were many things that I did not permit myself to say, because speaking openly could harm those assets. I had to close my eyes and put up with many things — all for the sake of my personal wealth, preserving and increasing it. I did not control this wealth alone — it controlled me as well.

So I would like to warn young people today, those who will come to power soon: don't envy those people who own substantial assets. Wealth opens new opportunities, but it immobilizes a person's creative potential and can lead to the disintegration of a person's individuality. That is what this cruel tyranny shows — the tyranny of wealth.

Now, though, I have been reborn. I am becoming a normal person whose purpose is to live and not just to own things. The struggle is no longer to acquire property. The struggle is for oneself — for the right to be an individual. In this struggle, ratings, bureaucratic contacts and advertising gimmicks do not matter. The only important things are oneself, one's own feelings, ideas, talents, will, intellect and faith. This means the only possible and right choice is the choice of freedom.

In 'Property and freedom', Khodorkovsky signals very clearly that he is moving from one characteristically Russian class — the oligarchy — to another, the intelligentsia. He is setting out his credentials as a philosopher commenting on life in Russia, and empowered to do so because he has been through the suffering and martyrdom of dispossession. In Russia this is a path that is recognized and respected. It is Dostoyevskian in the sense that the dispossessed and the downtrodden, holy fools and mystics, are revered as possessors of the truth. It is Tolstoyan in the sense that abrupt material descent is paralleled by a commensurate moral ascent — a moral resurrection.

Professor Bill Bowring is the human rights attorney and specialist in Russian law who has followed the Yukos saga at first hand, testifying for the company's executives in their extradition hearings. He says Khodorkovsky's prison writings are a deliberate attempt to follow the path of spiritual regeneration:

I had no time for the chap [Khodorkovsky] whatsoever previously, but I think he has now set out to redeem himself. I think this is such a Russian thing — Tolstoy and everything: 'Resurrection'. I think this is absolutely it.

What he is playing is a role in his head which comes straight out of Russian history and literature. And again I think that is one reason why the West doesn't really understand what is going on . . . I think the way he conducted himself during his trial is absolutely consistent with this idea of who he is. It makes him a much greater challenge to the regime for that reason.

In Russia you have this self-sacrifice idea, and people will do this. Putin understands far too well what is going on. Khodorkovsky took this massive gamble [by staying in Russia]. And I think you cannot understand this unless you think that in his head — and this is certifiable insanity in many ways — he has cast himself in his mind as a Russian hero in this Tolstoyan model.

Khodorkovsky himself is certainly aware of the moral authority his sufferings have bestowed on him. In January 2005, he told the Russian edition of *Newsweek* magazine:

If I had emigrated, I would have been taken as no more than an oligarch. Today it is hard for me physically, but no one can say that I do not have the moral right to speak.

The archetype of the powerful man cast into prison or exile and consequently able to see and judge with renewed clarity the system he once served goes back a long way in Russian culture. In the sixteenth century, Great Prince Andrei Kurbsky fell out with Tsar Ivan the Terrible and proceeded to lambast the latter's tyrannical authoritarian ways from exile in the West. Kurbsky's epistles to Ivan are similar to — if more vehement than — Khodorkovsky's treatises from prison.

If the chronicles are to be believed, Ivan felt sufficiently stung by Kurbsky's polemics that he replied with epistles of his own. Vladimir Putin has studiously ignored his accuser, but it is inevitable the President recognizes the historical precedents: the right of the powerless to indict the powerful is a Russian tradition; respect for the power of the written word has long been ingrained in the Russian psyche.

The Kurbsky–Ivan confrontation set the tone for a polarity that runs through Russian social thought: Kurbsky's letters speak approvingly of Western values such as individualism, liberty of thought and civic freedoms and contrast these with the 'Eastern', Slavic tradition of despotic rule and autocracy. The dichotomy bubbled under the surface of Russian political philosophy for centuries, until it took its definitive shape in the Westernizers versus Slavophiles debate of the mid-1800s.

The Slavophiles argued for the supremacy of Russian civilization based on the monarchy and the Orthodox Eastern Church; they supported autocracy, opposed political participation and were nationalistically anti-Western. The Westernizers believed that if Russia wanted to progress, it must adopt Western institutions, Western technology and liberal government.

An understanding of the Westernizer–Slavophile polarity in Russian thought

is in many ways the key to understanding the roots and significance of the Khodorkovsky–Putin confrontation. While Khodorkovsky, Kasyanov, Illarionov and their allies were Western-looking modernizers and liberals, Putin, Sechin, Ivanov and the Siloviki were very much nationalist, statist Slavophiles, devoted to the supremacy of the Russian state and bound to an ‘Eastern’ model of recidivist authoritarianism.

The final mantle from Russian history that Khodorkovsky puts on in his writings is the cloak of the Decembrist revolutionary. As we have seen, he repeatedly describes himself, his wife and his colleagues as Decembrists and it is clear he wishes to be seen as a liberal rebel standing up to the mighty machine of autocracy. The Decembrists of 1825 refused to swear an oath to a tsar whose power they considered tyrannical and illegitimate, demanding instead a Russian Constitution and possibly a popular democracy. It is a role that could resonate with educated Russians, mainly in Moscow and St Petersburg, although probably much less in the provinces. Young Russians do still study their country’s history, so the image will be clear to them. Professor Bill Bowring says Khodorkovsky’s writings from gaol have given him an aura of authority:

He could have gone [abroad]. So he’s somebody who has taken an enormous risk — one could say extremely unwisely — but has then conducted himself extremely well during his trial and afterwards. I would say he has picked up a degree of respect.

I think his political interventions have been quite well judged; and I think to class himself as a Decembrist as he has now done, and his wife and daughter as the wives of Decembrists . . . I think that with a section of the Russian public that will strike a chord, mainly with the intelligentsia.

I think Khodorkovsky was taking this massive political gamble [by staying in Russia], so I think he rightly or wrongly — probably wrongly — sees himself as a future saviour of Russia.

Otherwise why on earth would he take these enormous risks?

By appropriating the ideals of the Decembrists, Khodorkovsky is implicitly indicting the unaccountable autocracy of Putin’s ‘managed democracy’. It is an overtly accusatory gesture from the Yukos man; but is it also an acknowledgement of the powerlessness of idealism, given that the Decembrists were defeated and executed or — like him — sent to rot in gaol?

The answer may be found in another of Khodorkovsky’s treatises from captivity. ‘Liberalism in crisis’, published in the journal *Vedomosti* in March 2004, accepts that liberalism in Russia has failed and that he and people like him must shoulder much of the blame. Its opening phrase — ‘Russian liberalism is in crisis; today there can be virtually no doubt about this’ — sets the tone for a coruscating denunciation of the would-be liberals who ran Russia in the 1990s and who lost sight of the true ideals of civic freedoms and individual rights:

Socially active people with liberal views — a category in which I include myself, sinner

that I am — bore the responsibility for ensuring that Russia did not depart from the path of freedom. Unfortunately, to paraphrase the famous words spoken by Stalin in June 1941, ‘we f***ed up our own cause’. Now we must analyse the tragic mistakes we made and admit our guilt, our moral and historical guilt. That is the only way we will find a way out of the situation we are in.

Speaking with the new moral authority of the dispossessed prophet, Khodorkovsky preaches sackcloth and ashes for the oligarchy. Now he says they need to acknowledge the allegedly dubious nature of the wealth they all inherited in the 1990s privatizations:

We must accept that 90 per cent of the population considers the results of privatization to be unjust, and its beneficiaries not to be legitimate owners. While this situation prevails, there will always be forces attempting to encroach on private property.

In order to rehabilitate privatization in the eyes of the nation, big business will have to be forced to share with the people — probably by reforming taxation of mineral resources and perhaps through other measures which big business will not find very agreeable.

It is better to start the process, influence and control it, than to put up futile resistance and fall victim to the inevitable. We need it for ourselves and for our children, if we want them to be able to live in this country and walk the streets without bodyguards.

While he castigates the oligarchs as a class, he seems to distinguish between the out and out crooks and those who were interested in using their wealth to improve Russia’s lot. He puts himself in the category of those who were always supporters of liberal, reformist values:

As far as I am concerned, Russia is my motherland. I want to live, work and die here. I want my offspring to be proud of Russia and proud of me as a small part of this country and this unique civilization.

Perhaps I was too late in understanding this: I only started my involvement in philanthropy and my support for civic organizations in 2000. Although, as they say, better late than never.

That is why I decided to stop working in business, and speak not on behalf of the ‘business community’ but for myself and on behalf of the liberal part of society and the people I consider my comrades-in-arms . . .

To change the country, we must change ourselves. To persuade Russia of the necessity and inevitability of a liberal future, we must overcome the mistakes of the past. If we want freedom in our country, we must believe in it ourselves.

The rejection of the failed liberalism of the Yeltsin years and the absence of personal criticism of Vladimir Putin led some commentators to see Khodorkovsky’s early missives as an attempt to curry favour and even plead for mercy. In fact, his critique of liberal politics reads much more like a presidential

manifesto: by attacking the politicians who failed liberalism he is implicitly suggesting that he, Mikhail Khodorkovsky, is the man to lead it out of the impasse. Far from reassuring the Kremlin, his increasingly outspoken prison treatises were destined to set alarm bells ringing. By the time of his November 2005 epistle, 'Left turn, Part Two', Khodorkovsky's cards are on the table:

The present Kremlin regime has exhausted itself, and its days are numbered. In place of the decayed and disintegrating Putinist system a new generation of leaders must emerge, thinking not of a shameful place at the Nomenklatura's trough but of the fate of Russia in the third millennium.

He had been in gaol for two years and his spirit had clearly not been broken: far from suing for peace, Khodorkovsky was continuing to throw down the most vigorous of challenges to the man who had tried to destroy him.

A battle of Titans

Martyrdom and prison created a new image for Khodorkovsky. Although the picture of the grasping Jewish tycoon who stole the ‘people’s property’ was far from completely erased, he was beginning to be seen as something more nuanced. Public opinion — and some branches of the media — began to draw a distinction between the ‘criminal oligarchs’ (Boris Berezovsky in particular was demonized by the press) and those who had at least tried to do some good. Khodorkovsky’s philanthropic work was, almost for the first time, acknowledged in debates about his role; his courage in staying in Russia — and his attempts to lay the foundations of a Russian middle class, bridging the yawning gap between the super rich and the chronically poor — were referred to in public discourse.

Most importantly, his public polemic with Vladimir Putin (his prison treatises were given wide coverage in independent journals) brought him the beginnings of a presence on the country’s political map. Because he had stood up to Putin, and because he had spoken out about the defects of ‘managed democracy’, Khodorkovsky was gaining a toehold in the still small sector of public opinion that would count as Russia’s political opposition.

In 2005, in gaol and awaiting the outcome of his appeal, he had attempted to run for parliament as a candidate in the University District of Moscow. Independent opinion polls in the months before the December 2005 election showed about 28 per cent of voters would back Khodorkovsky, possibly enough to win him a seat under the complex electoral system then in force. The fact that he was in prison, and that his crimes were increasingly being presented as political, added to his appeal among some voters. The polls showed that 91 per cent of residents knew about the Khodorkovsky case and 58 per cent believed his arrest was politically motivated.

The campaign to get Khodorkovsky into the Duma was self-confessedly aimed at winning him immunity from prosecution and was always likely to be stymied by the Kremlin. He was legally allowed to stand for office because on the day his candidature was lodged, 13 September 2005, his appeal against his conviction was still outstanding. Unfortunately for Khodorkovsky, but conveniently for the Kremlin, the Russian postal system somehow ‘lost’ his registration letter in the mail. With his appeal hearing only days away, it became a race to get a replacement letter filed in time. Khodorkovsky’s lawyers tried to get the hearing postponed by arguing that the defence team had fallen ill with flu, but the state was unbending. The appeal went ahead on 22 September, the conviction was upheld and Khodorkovsky became ineligible to be a parliamentary candidate.

The episode made some headlines: the Kremlin's manoeuvring to block his candidacy suggested the authorities were worried about Khodorkovsky as a political opponent, and his public profile was correspondingly enhanced.

In Vladimir Putin's years as President, the political opposition in Russia became fragmented and weak. Liberal parties were squeezed out of parliament because factional in-fighting split their electorate and left them below the 5 per cent of the vote (7 per cent from 2007) that parties needed in order to be represented in the Duma.

One of Khodorkovsky's last acts as a free man had been to try to persuade the two main liberal parties — Yabloko and the SPS — to unite. He failed and they suffered the ignominy of having no deputies in the Duma: the disintegration of liberalism left the Communists and Vladimir Zhirinovsky's far right nationalist LDPR as the only opposition to Putin's United Russia Party.

Now he was in gaol, Khodorkovsky looked as if he was coming closer to uniting the opposition than he had done when he was free. In the year after his arrest, he was voted Man of the Year by a Moscow radio station and a national newspaper, both of which put Putin in second place. The following year the placings were reversed, but it was the same two men who topped the voting. The veteran political commentator Sergei Dorenko commented wryly, 'Putin is politician number one because of his position. Khodorkovsky is politician number two, and not just because of his position [in gaol].' The two men were coming to represent the different poles of a polarized society. Khodorkovsky no longer had the material power of his oligarch days, but his influence was arguably greater than ever. Savik Shuster, a popular presenter on the national NTV channel, concluded that Khodorkovsky had succeeded in reversing his unsavoury public image: 'Before, he was businessman number one and at the peak of his powers. Now I would say he is much more popular. He is a victim, and Russia loves martyrs.'

Khodorkovsky's newfound moral authority — and his nascent political clout derived from the four prison 'manifestos' — did little to allay Vladimir Putin's fears of his caged but still dangerous opponent. There was a period when Russian politics was close to becoming a battle of two gigantic personalities: badges appeared on the streets proclaiming, 'I am for Khodorkovsky' or — more usually — 'I am for Putin'. The personal relationship between Russia's two most influential figures became a topic of fervid speculation; stories of their stormy confrontations were told, re-told and embellished until they became part of popular urban mythology.

The truth behind the relationship is hard to pin down. It would be easy to infer that the two of them hated each other. But I think that is too simple. People who knew both Khodorkovsky and Putin have told me the rivalry was mixed with respect and more than a little regret. Leonid Nevzlin says the collision between the two men was 'head on, absolutely head on', but he is not sure either of them really wanted it to happen:

With Khodorkovsky it was very interesting . . . he's the kind of person, you know, who respects authority and always did. In other words he may have his own opinion, and express it, but not make it personal . . . He never made it personal . . . And whenever I talked with him about Putin, he always referred to him as 'the leader' . . . in the third person. He always spoke of him with respect. So, I think he simply misjudged the level of the man — the extent to which he is a man of limited personal moral virtues . . . For his part, Putin, I think, hated him. I can't be sure, but I think so . . .

Mikhail Brudno is more categorical:

I can say with all certainty that Putin hated Khodorkovsky. It was a very personal, intense hatred that Putin felt towards him. And it [the Yukos affair] was his personal revenge. This is the only way to see it. It is personal hatred, and personal revenge.

Khodorkovsky did not hate Putin. No. For him, Putin was not an object for hatred. For him, Putin was more an element of the machine that he was attempting to radically change. There was no hatred there. There was nothing personal involved on the part of Khodorkovsky. He was not an emotional man. Maybe they were there inside him, but he did not often show them.

He was like a machine, without any emotions . . . especially in critical situations. This was actually why we were together for so many years. We were all made in pretty much the same way. In a crisis, we were all alert and ready for action. No place for emotions. No friends, no hatred, no enemies. And show no emotions.

But Brudno is convinced that it was personal hatred towards Khodorkovsky that prompted Putin to launch the attack on Yukos:

Brudno: Yes, Putin was behind it all.

Sixsmith: But Putin kept saying, 'It was not me. I have nothing to do with it.'

Brudno: It was him, from the beginning to the end. From the very beginning to the very end. Nothing that was done was done without his permission. Now, maybe he was led to making certain decisions by certain people. He is not a man who is very independent in his decision-making. He was led to certain decisions, he was led into a situation where there was only one way out. But, however it may have been, he made those decisions. He made the decisions and the others executed those decisions.

Leonid Nevzlin agrees that Putin let himself be egged on by those around him, by Igor Sechin and the Siloviki. And he says the President's personal hatred for Khodorkovsky may have blinded him to the dangers of the actions they agreed to take in destroying Yukos:

Nevzlin: There was a consensus . . . And at the centre of this consensus lay the hatred that Putin harboured. They convinced him — and I don't think it was easy for Putin

to take the decision to arrest Khodorkovsky, even if he failed to understand all the consequences for himself. The consequences for Putin, I think, are pretty dismal — although he didn't realize it.

Sixsmith: So if he could have foreseen what would transpire from it, do you think . . .

Nevzlin: I don't think he could have foreseen things, because he *still* doesn't understand it . . . the consequences of his actions. He doesn't understand that's the wrong way to do things . . . that everything could have been done differently.

Sixsmith: But Khodorkovsky was getting into politics . . .

Nevzlin: Undoubtedly he'd got very interested in politics. Undoubtedly he viewed that nexus of civil society and politics, that movement towards freedom, as the place where his own self-fulfilment lay. But I can't say that he was moving in the direction of . . . becoming President of Russia for instance, because he certainly didn't talk to me about it.

Sixsmith: He never talked about it?

Nevzlin: Not to me, no.

Professor Bill Bowring believes Putin's hatred for Khodorkovsky was mixed with a real fear of his political potential. Putting Khodorkovsky in gaol was intended to neuter him as an opposition figure, but may have had the opposite effect:

I think there is ample evidence that Khodorkovsky and his team were seen by the regime as being the most significant threat, given that the other bits of the opposition had self-destructed. I don't think you could possibly take the Other Russia movement seriously, with those people involved in it. Whereas I think that Khodorkovsky had the beginnings of a serious platform. Quite apart from the other things like seeking to do deals with China and so forth; and I'm sure the regime at that point was already thinking about re-nationalizing oil and gas . . . as they have now done.

Alexei Kondaurov, the former KGB general who became a senior adviser to Yukos in the late 1990s, observed the clash between Putin and Khodorkovsky at first hand. He contends that the President and his coterie were motivated by personal greed, fear and petty vindictiveness, while the Yukos boss was genuinely trying to work for the benefit of Russia. His assessment is clearly partisan, but Kondaurov says Russia can hardly afford to waste the talents of Khodorkovsky and people like him:

I think the fact that Khodorkovsky is in prison is a tragedy for the country. I am convinced — I was convinced then and am positive now — that if Putin had not chosen the way he did choose, if Russia had not changed its political direction so abruptly, such people as Khodorkovsky could have brought great benefits to the country's development. They would have helped us to reduce the gap between Russia and the leading Western countries, helped us to avoid all the traps and hazards I am talking about. But, unfortunately, that was not what happened.

Why did they need to rob Yukos of all it had? I cannot understand that. I cannot understand how the leader of a country can think in such terms and categories. A true statesman does not think of personal wealth, but in terms of his country's prosperity. Unfortunately, we do not have true statesmen; we do not have great men with vision and potential.

How was Khodorkovsky different from all these people? Because he was a man of vision and magnitude. He was a large-scale person; he had a strategic vision and the ability to handle problems from a strategic point of view. First, within one company; but by 2003 he was ready to begin thinking on the level of a whole country. He was ready to become a large-scale statesman.

I think that scared them. They were scared to see a serious competitor emerging; they could see he had potential and ample resources. The kind of person Khodorkovsky was, he did not belong to the class of the oligarchs at all.

Khodorkovsky may well have been a large-scale personality with big ideas for the future of Russia, but he did not seem to have much understanding of human psychology. Mikhail Brudno's assessment that he 'had no place for emotions' and was 'more like a machine' looks in retrospect to be sadly accurate: several people directly involved in the dispute between the two men have told me that Khodorkovsky simply did not realize that his arrogance and disrespect towards the notoriously touchy President was always going to be damaging to his own cause. One oilman who spoke on condition of anonymity told me the Yukos boss failed to take account of Putin's resentful nature and lingering inferiority complex:

The roots of their dispute go back a long way. It was personal. I am sure this will not be new to you, but Khodorkovsky mocked Putin in public. I saw him do it. Not in a very overt way, but through his tone and his facial expression.

I remember going to a big conference before the actual Yukos affair got under way, and Khodorkovsky appeared and spoke, and he said something about 'our President' and so on. It was quite obvious at that point from the way he spoke that he really did not hold Putin in the kind of respect that Putin saw as his due . . .

And Putin has a vicious, vindictive character. He's [ex-]KGB. He has a lot of complexes. He hates people who tell him the truth about himself or his policies. He hates people who belittle him.

Khodorkovsky was making a lot of negative comments about Putin and about the regime, and that eventually got back to Putin.

In retrospect it seems that at least part of Khodorkovsky's tragedy is that he failed to allow for human nature. It is impossible to say if better emotional understanding could have averted the conflict over Yukos, but my oil executive contact says it could at least have produced a less damaging result for Khodorkovsky himself:

Going back to Putin's goals, I think one firm goal was to take over Yukos. But I think Putin, or the Kremlin, would have been prepared to pay for the company. So if Khodorkovsky had not taken such an aggressive stance against Putin, he might have received a good deal of money and been able to leave the country. I am sure a deal like that could have been concluded, but Khodorkovsky's attitude made it impossible.

In the battle of personalities, Khodorkovsky's misreading of his opponent ultimately cost him dearly. But there is evidence that Vladimir Putin also made mistakes; that he allowed his emotions to cloud his judgement, and that crucial decisions were at times based more on personalities than on the national interest. Destroying Yukos allowed him to punish Khodorkovsky, the man he loathed and feared, but the satisfaction Putin gained from his personal revenge came at the expense of considerable potential damage to Russia's economy . . .

By 2005 the dismantling of Yukos was moving on apace. The sale of Yuganskneftegaz — and its acquisition by Igor Sechin's Rosneft corporation at less than half its true value — had been completed. The Prosecutor's demands for back taxes stood at a staggering \$28 billion, meaning Yukos had dwindled from a market capitalization of \$40 billion to something like \$2 billion. The Kremlin had appointed an interim receiver, Eduard Rebgun, to oversee the funeral rites of the once great company, but with Yukos's choicest assets being picked up at bargain basement prices by companies controlled by the Siloviki, this was not a traditional nationalization: it was, rather, the jewel of Russia's oil industry being transferred from the control of one oligarch to the control of new oligarchs — Sechin and his associates — in the presidential Administration.

Writing shortly after the sale of Yuganskneftegaz, Khodorkovsky in his open letter 'Property and freedom' lamented the wanton destruction of the company he had created. He had offered to give up his own stake in Yukos to pay the tax demands, 'but the other side chose a different path — the selective application of the law, the enactment and use of new, retroactive legal standards and interpretations, as well as the straightforward and public destruction of the business community's confidence in the arbitration court and the authorities in general'.

It was, said Khodorkovsky, 'the most senseless and destructive event for the country's economy since President Putin's term of office began':

I do not wish to discuss in great detail the wild imagination that invented the story of

Yukos's tax arrears. According to the experts at the Ministry of Taxes and Levies, Yukos should be paying more in taxes than its total revenues! Methods such as these will be cited as a bad historical joke in textbooks on taxation law, since they prove that oil production in Russia is unprofitable. It is clear that government officials will stop at nothing for the sake of the redistribution of property.

In 'Property and freedom', Khodorkovsky argues that the transfer of oil production from the energetic entrepreneurs of Yukos to the dead hand state bureaucrats of Rosneft was a disaster in terms of business efficiency and the national economy. To test this contention, I approached one of the world's leading experts on the energy sector and a senior commentator for the oil industry's principal information agency. Both of them spoke on condition of anonymity and both agreed that, by most measures, Khodorkovsky was right. From being a thriving, dynamic company with annual increases in productivity and output levels, the former Yukos assets had fallen back almost to the stagnation of the Soviet era. Whereas in 2003 83.5 per cent of Russian oil production was in private ownership, the equivalent figure in 2006 was 42 per cent. The growth in productivity of the former Yukos production installations fell from 19.9 per cent in 2001 to -1.9 per cent in 2005. Yuganskneftegaz saw its costs rise by 31.5 per cent and its sales fall by 17.3 per cent over the same period. Output collapsed from over seven million tonnes a month in 2003 to less than two million in 2005. And Russia's overall performance in the oil sector suffered accordingly: an annualized growth in output of 12 per cent before 2003 fell dramatically in the new era of statist control to just 2 per cent in 2006. My independent oil expert summed up what had happened:

Personal hatred of Putin for Khodorkovsky may have blinded him to the foolishness of crushing Yukos.

By 2003, Yukos was a model company. It was efficient, well run and transparent. It was easily the pre-eminent Russian oil company.

When its assets were transferred to Rosneft, they became part of a big, inefficient conglomerate that has done little to make the most of them. Rosneft and Gazprom operate like the pre-transformation Yukos [i.e. before Khodorkovsky's conversion to Western standards of accountability in the late 1990s]: they look to make profits, but with no thought for developing the business for the future; they fear what will come after Putin and have tried to ship out of Russia as much cash as possible . . . by buying up assets in the West.

The result has been a loss for Russia as a whole. Instead of crushing Yukos, Putin should have encouraged its success and made sure it paid its taxes: that would have been of much more benefit to the state than what actually happened.

Driven by personal animosity, Putin seems to have disregarded long-term considerations of national interest. By 2005 he appeared irrevocably committed to the total destruction of Khodorkovsky and his empire. Unrelenting demands

for higher and higher tax arrears were keeping the Yukos negotiators constantly on the back foot, as the Kremlin moved ever closer to its strategic goal — the return of ‘Russia’s oil’ to the control of the Russian state.

PART SEVEN

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The UK connection

Ever since Khodorkovsky was arrested, investigators from the Ministry of Taxes and Levies and detectives from the Russian Prosecutor's Office had been burrowing away behind the scenes looking for more ammunition to throw at the beleaguered Yukos executives. They were determined to unearth evidence that Khodorkovsky and Lebedev had been involved in shady financial dealings. In particular, the Kremlin seemed to believe that Yukos's parent company, Group Menatep Limited (GML) had been squirrelling away billions of dollars in undeclared profits from Yukos and concealing them in an impenetrable maze of offshore companies registered in secretive tax havens around the world.

It is unclear if the Kremlin's sleuths were acting on specific information they had received about GML, or if they were proceeding on the basis that all the Russian oligarchs were probably using such schemes and Khodorkovsky was unlikely to be an exception. It is undoubtedly the case that other, more Kremlin-friendly oligarchs were not subjected to such close scrutiny. But it is nonetheless true that GML operated offshore. And it is a fact that its operations were being carried out with the direct involvement of British financial and business interests.

All the Yukos executives I have spoken to, and all the British lawyers and financiers connected with GML's offshore companies, deny the firm was involved in anything other than legitimate tax minimization schemes. But the Kremlin believes otherwise and is continuing to pursue the offences it claims to have discovered.

Vast amounts of money are alleged to be involved; several British and American executives are the subject of Russian arrest warrants on charges that they helped embezzle that money; and at least one of them has already died in mysterious circumstances.

When Platon Lebedev was arrested in July 2003, GML — which was the majority owner of Yukos — was left leaderless. For the two years preceding his imprisonment, Lebedev had been GML's director. He had been responsible for the company's investment and accounting decisions and for the network of offshore subsidiaries through which the group's accounts were channelled. He had long been regarded as GML's financial guru and it was clearly imperative to replace him as quickly as possible. In the event, the selection of a successor to Lebedev reflected the importance the shareholders attached to the offshore operations they were involved in.

In 1997, GML had established its registered headquarters in Gibraltar and made its first contacts with the British lawyers who would become increasingly involved with the company. The Gibraltar-based lawyers were specialists in the

provision of fiduciary services, essentially the creation of offshore companies to serve as a firm's official headquarters. The companies would have a corporate structure, a registered office, shareholders and directors, but would not in themselves carry out any business in the offshore jurisdiction where they were located.

The Gibraltar registration meant GML could minimize its tax liabilities. For the British law firm which set up GML, the deal was nothing special: they already had five hundred other companies — many of them Russian — under their wing. One of the British lawyers involved told me it was perfectly normal practice for big organizations to create such offshore registrations:

Some people raise their eyebrows at the whole idea of offshore companies and so on, but if you see the structure chart for any multinational corporation you will see that [they all] have a very large number of companies in it. A lot of those will be in places where the fiscal attractions are more beneficial. That is a natural thing.

GML placed a series of intermediary companies between itself and its key asset, Yukos. Ownership went from GML to a daughter company in the Isle of Man and a granddaughter company in Cyprus, which in turn held the shares in Yukos. In addition, the owners of GML arranged for their stakes in the company to be held in a Guernsey-registered trust run by a separate firm of British accountants. GML (and therefore the majority stake in Yukos) was beneficially owned by seven shareholders, chief among them being Mikhail Khodorkovsky.

Because of the confidential trust arrangements, it is not a simple task to ascertain who owns — or owned — what. I understand, however, that Khodorkovsky held approximately 59 per cent of GML and the remaining 41 per cent was divided between the other six partners — Leonid Nevzlin, Platon Lebedev, Mikhail Brudno, Vladimir Dubov, Vasily Shakhnovsky and Alexei Golubovich.

Their stakes varied from Nevzlin and Lebedev's 8 per cent to about 5 per cent each for Golubovich and Shakhnovsky. (As we have seen, Khodorkovsky would later renounce his interest in Yukos when he was sent to gaol, at which stage he handed over the whole of his stake in GML to Leonid Nevzlin.)

After Khodorkovsky's Pauline conversion to transparency and openness following the stockmarket crash of 1998–99, the role of the British lawyers and accountants became increasingly important. The Yukos management was set on transforming the company into a Western-style enterprise with accounting practices and corporate governance that would allow it to be listed on a Western stock exchange. In 2000, Platon Lebedev summoned several British lawyers to the Zhukovka compound outside Moscow where the Yukos directors had their homes and offices. One of them told me about the meeting:

Platon Lebedev spoke for about two hours, basically on what they wanted to do on

turning Yukos into a transparent company and going for their listings in New York and London and all the rest of it. The seven shareholders were there. They were the shareholders, and Lebedev was also the director. They went through a corporate restructuring, basically. Anton Drel was managing that. They decided they would put their shares into trust structures with protections, so that if one of them died or left [then] GML would have an option to buy him out, rather than having other people come in that the rest were not keen on.

Under the energetic direction of Lebedev, GML's plans to list Yukos in the West made rapid progress. By 2003 the merger with Sibneft and talks with ExxonMobil were well advanced; discussions had begun with the New York stock exchange. But Lebedev's arrest in July threw the company into turmoil. Vladimir Moiseyev, the head of Menatep subsidiary GML Management Services, took over Lebedev's role as sole director of GML in early July. He was a trusted childhood friend of Khodorkovsky and had been involved in setting up the overseas arrangements for the company. But within weeks, Moiseyev was being targeted by the Kremlin. He and Anton Drel had their offices raided. The Prosecutor's Office said it was a search for information on Yukos's international financial transactions involving funds allegedly accumulated through tax evasion. They said Drel had acted as a consultant for Yukos transactions with offshore companies and described Moiseyev as 'the head of Yukos's financial transactions abroad'. Both men were said to be channelling embezzled funds through GML, a charge that was immediately denied.

The continuing attacks on Moiseyev made his position close to untenable and the GML shareholders began the search for a replacement. The name they came up with was that of a British lawyer who had been involved for several years in the late 1990s and early 2000s with their international company structure and had provided them with advice on tax and legal jurisdiction. Stephen Curtis had his own firm specializing in the provision of legal, tax and consulting services. His clients included several prominent Russian businessmen such as Boris Berezovsky, by then exiled in London; Roman Abramovich, the Chelsea FC owner; and Khodorkovsky.

In 2003 Curtis had been involved in the difficult negotiations over the future of the Yukos–Sibneft merger. He used his good relations with Roman Abramovich to try to salvage the deal and acted as a go-between after Sibneft proposed that Yevgeny Shvidler should become chief executive of the merged company. In August, he was appointed sole managing director of GML, stepping into the shoes of Platon Lebedev and the short-lived Vladimir Moiseyev.

One of GML's British advisers told me that part of the reason Curtis got the job as director of GML was that he had good contacts with the Kremlin:

When Lebedev was arrested . . . we had a bit of a problem. Initially Vladimir Moiseyev came in because he was the sort of trusted representative.

Then for a longer-term solution and to make the company more Western — that

is when Stephen Curtis came back on to the scene. He obviously goes back a long way with Khodorkovsky and Lebedev and so forth.

At that point their offices in Moscow had been raided and everything had been taken away. There was precious little paperwork around. Everything had gone.

At that point Stephen took on the directorship. He made it a speciality of his law practice or consultancy to work for prominent Russians.

He took the position with a view that he had contacts very high up in the administration in Russia. Everybody thought at that stage that it would be sorted one way or another and everything would be fine.

Rightly or wrongly, Curtis was regarded as a good conduit to the Kremlin and on friendly terms with several highly placed officials. Interestingly, in light of subsequent events, one lawyer who spoke to me on condition of anonymity confirmed that Curtis had been involved in setting up tax minimization schemes for 'leading figures inside the Kremlin' — and that these differed very little from those used by GML:

Sixsmith: You said he [Curtis] had connections in the administration in Moscow with the government side? He was well connected with the Kremlin?

British lawyer: Yes. I know that because of some of the work we have done . . . some of the work that we did for some Russians, I would say in days of old. I have set up offshore structures for guys who are right there, even now.

Sixsmith: In the Kremlin.

British lawyer: Yes. They are all at it. You are trying to set yourself up in the way that is the most fiscally beneficial for you. That is enshrined in common law. You are entitled to arrange your affairs in such a way that you minimize your tax liability.

It is clear that Curtis and his partners had close relations with all the main players in the Yukos saga — with GML, Roman Abramovich, and with the Kremlin itself — and that some if not all of those players had been involved in potentially shady financial dealings of which Curtis had an intimate inside knowledge.

I have dwelled on this point for a specific reason: Stephen Curtis was killed in an unexplained helicopter crash on 3 March 2004, little more than six months after his appointment as GML's director.

From all accounts, Curtis was a thoughtful man, universally described as friendly and generous to a fault. Clients and friends visiting London would find he had arranged treats and surprises for them, and he was lavish with his hospitality. According to his colleagues, Curtis thought long and hard before accepting the GML offer. His role in the months following his appointment was to try to negotiate with the Kremlin on behalf of GML to see if a deal could be done to solve the Yukos impasse and get its directors out of gaol.

He had a series of meetings with senior Kremlin officials during those months, but found them uncharacteristically cold; his overtures were consistently rebuffed.

On the day he died, Stephen Curtis was flying in an Agusta-109c helicopter from London to Bournemouth in the south of England. One mile from its destination, the helicopter spun out of control and crashed; Curtis, aged 45, and his pilot Max Radford, 34, died instantly. The weather was foggy and an inquest jury later returned a verdict of accidental death on both men, blaming possible pilot error.

Shortly before the crash, however, Curtis had received death threats and had reported that he felt he was under surveillance. He had told a relative, 'If anything happens to me in the next two weeks, it won't be an accident'. The source of the threats was never found, but even the coroner at the inquest conceded that the case had 'all the ingredients of an espionage thriller'.

Competing theories began to circulate about who might have ordered Curtis's death.

Because of his position at GML, there were claims that he had been eliminated by Kremlin agents. Newspapers reported Curtis's company, ISC, had received £6 million from a Russian oligarch to run a covert propaganda campaign against Putin and his close allies. The reports suggested ISC had been tasked with gathering intelligence to 'discredit Putin and those around him' and most of the named targets were Siloviki who now held power in Moscow.

But it was not long before rival explanations emerged.

Revelations surfaced about Curtis's personal wealth — when he died, he had been flying from his London office to his private castle in Portland on the English south coast, not bad for a small town lawyer from Sunderland. Pro-Kremlin websites were soon running 'revelations' of how Curtis had been richly rewarded by Khodorkovsky and his cronies for helping them to hide billions of embezzled dollars in shell companies around the globe. Stories were fed to the media suggesting he had fallen out with GML's owners and that it was they who had had him killed.

The *Financial Times* ran an article claiming that in the weeks before his death, Curtis had approached Britain's National Crime Intelligence Service (NCIS) offering to provide information about illegal Russian business activities in the UK. A supposed NCIS source was quoted as saying, 'My sense was that he [Curtis] was fearful of being prosecuted by the Russian authorities for being party to assisting in the capital flight and that he thought that going to the UK authorities would give him some sort of top cover'. The implication in the article was that Curtis had seen the vengeance being wreaked on Khodorkovsky and had decided to unburden his conscience about his own part in GML's financial manoeuvres to the police. The reality, however, was probably more prosaic: Britain's 2003 Proceeds of Crime Act had recently obliged lawyers to report *all* large foreign transactions they were involved in, and Curtis seems merely to have been complying with this.

The *Financial Times* says its investigations uncovered evidence that Curtis and his partner Peter Bond had set up a confusing array of companies in tax havens around the world and a financial structure to conceal Yukos's profits. The article spoke of 'hundreds of documents' about Menatep's most intimate financial dealings that seemed to give credence to the Kremlin's case, and suggested Curtis was appointed to head GML because he was the only person who knew his way through the maze of Menatep's complicated finances.

One document that surfaced on a Russian website purported to be the minutes of a meeting in June 1999 at which Curtis had set out Yukos's convoluted differential transfer pricing schemes. According to the document, these involved selling Russian oil through trading companies such as Behles in Switzerland, South Petroleum in Liberia, and Baltic Petroleum in Ireland, with the aim of avoiding taxes and hiding profits. Curtis allegedly referred to the scheme as the 'Jurby Lake Structure', apparently named after a location in the Isle of Man, another tax haven where GML had lawyers working on its behalf.

The Russian authorities claimed that the profits which were hidden in 'Jurby Lake' were in fact the rightful property of the Russian state and of investors who had lost money when Yukos defaulted during the 1998 crisis. They alleged that \$25 billion went missing in schemes set up by Stephen Curtis and his colleagues, and by spring 2004 they were demanding the money back with increasing vehemence.

Curtis was undoubtedly alarmed by Moscow's threats of imminent action. A story in the Russian media suggested GML had asked him to disperse the assets of its major shareholders around the world to prevent them being seized by the Kremlin, but that Curtis had balked at being drawn further into the company's activities. The suggestion was that GML itself had an interest in silencing Curtis.

Equally, it is highly likely that the Russian authorities began pressuring him as soon as he took over the helm of GML: they knew he had sensitive knowledge of the company's offshore structures and they dearly wanted access to it. There was more than one group of people who could have had reasons to pursue Stephen Curtis.

The British troika

With Stephen Curtis dead, Nevzlin, Brudno, Dubov, Shakhnovsky and Golubovich were again forced to look for new directors. Curtis's long-term partner in the creation and administration of GML's offshore structures was a man named Peter Bond. His company, Valmet, had been based in the Isle of Man and specialized in the same offshore consulting and accountancy services that Curtis had provided. They had done a lot of the initial structuring work for the Russians, so Bond might have looked a natural choice to step into the job.

By March 2004, however, Bond was entangled in legal proceedings in the US where he was accused of large-scale money-laundering in an unrelated case. As a result, he was required to sell Valmet, and Valmet's duties were taken on by a firm called IFG International. One of IFG's senior figures was a genial, softly spoken Northern Irishman named Kevin Bromley who was based in the Isle of Man and had worked with GML for several years. Bromley says he was initially reluctant to take on the role of director:

Well it worries you when you are suddenly caught up in a high-stakes game of espionage and power politics and the next thing you know ex-Mossad people are coming round to your house to advise on security. You start to worry about your own security and the security of your family. You always worry about it.

I mentioned to you that Putin never sends me a Christmas card! . . . I have signed two letters addressed to him on issues, because nobody else would. I think I drew the short straw. But it's the most challenging thing I have ever done, and like an adrenalin junkie you get addicted to it.

The death of Stephen Curtis was much in Kevin Bromley's thoughts; at times he worried that his predecessor may indeed have been deliberately killed:

I was a little concerned about it because we were not too sure at the time whether Stephen Curtis's death was an accident or not. Sometimes in black moments I think — yeah, that was no accident . . . but most of the time I just try not to think about it.

In the end, Bromley took on the GML job as part of a trio of directors. A Gibraltar-based English lawyer, who wishes to remain anonymous, was brought in, and so was Tim Osborne of the law firm Wiggin Osborne Fullerlove. Osborne is a bluff, upbeat rugby enthusiast who studied law at London's University College and went on to build a successful international practice. Now he and his colleagues were being thrust into the centre of a potentially lethal international conflict, in which the main players were increasingly ending up

in gaol or dead in mysterious circumstances. According to the third member of the troika, they did not fully realize what they were letting themselves in for:

The decision was taken during March that the three of us should come on as a three-man board to keep things going and to try to get GML back into some sort of shape. At that point all the records had gone — confiscated — and it was difficult to find out what on earth was going on. People were getting out of Russia as fast as they could. There was a huge amount of pressure. We took the job on for a temporary period and just stayed, rolled over and rolled over.

The first task facing the new directors was to locate and secure GML's assets that were scattered around the world, before the Kremlin could seize them. Kevin Bromley says it was a complex task:

It's been a balancing act, but we've been successful in selling off assets without bringing the full wrath of the Russian authorities down on our heads. When we started this job, there were little or no records. They'd all been seized, so you didn't even know what the assets of GML were. It took a year to find out and then we'd still discover something like . . . Bulgarian hotels that GML owned: we were like, what are these things!

After Moscow declared Yukos bankrupt, the Prosecutor's Office began proceedings to attach GML's assets as collateral. The company's three directors had to move fast to get there first:

We have been realizing assets, securing assets, formulating claims, and fighting a few battles of our own. Getting the assets together, protecting them and, of course, trying to recover what has been taken away from the company. GML is a \$3 billion company, even now [in 2008].

They had a hundred-metre yacht moored in Monaco. They had a Gulfstream G5. We have had to sell all these. They had assets in Switzerland; investments in Russia.

It was a big programme to salvage as much as possible. That \$3 billion values the Yukos holding at nil, which is exactly what it is. With the Yukos holding, of course it would be very different. If Yukos had stayed as it was, it would be worth \$120 billion.

Kevin Bromley, who eventually resigned as a director of GML in March 2008, says the squabbles over GML's remaining assets have at times been fierce:

When you get a company like GML where you have had the Russian government going after it and you have all these people employed and they all have agreements and relationships with it and they do not know what is going on, it brings out the worst in people. You are fighting against that all the time. People are trying to get out through the door with as much as possible in their arms. That has been a constant battle. There were shadowy figures in there that we would come across from time to time. We would wonder, who are they and what are they doing? They still come out of the woodwork.

They are offering information and they are offering to sell you stuff. If you do not buy it, they give it to the Russian government. You get these threats and you do not know whether there is anything in it or not.

In the end, the British directors managed to save a substantial portion of GML's non-Yukos assets. Their initial instinct was to contest the Kremlin's bankruptcy order against Yukos and fight to keep the company afloat. They spent months tussling with Eduard Rebgun, the official receiver appointed by the Prosecutor's Office, whose brief was to seize GML's assets and sell them to pay off the \$28 billion in taxes the state was demanding. Tim Osborne says they did their utmost to negotiate a deal to meet the tax demands and save the company, but it soon became clear Moscow was not interested:

They had appointed a receiver and he had a specific period to come up with his report, which I think made it to the court in early August 2006.

Yukos put up a plan which showed that the company wasn't bankrupt, and how the company could survive while fighting the tax debt. We endorsed that plan; we took part in the shareholders' and creditors' meeting to discuss it, albeit by video conference because none of us can go to Moscow. Notwithstanding what I think was a pretty credible plan, it was rejected out of hand by the creditors — who are basically the tax authorities and Rosneft.

Because the vast majority of Yukos's alleged debts — about 90 per cent — were owed to the Russian state and the state-owned Rosneft corporation, the Kremlin had virtually a free hand in deciding the tactics to use against the company. One of its first steps was to encourage the consortium of Western banks that had loaned money to Yukos to sue for the return of their loans. Tim Osborne believes the aim was to get the commercial banks to tip Yukos into bankruptcy rather than the Kremlin having to do it itself:

There were two main loans to Yukos. One by a consortium of Western banks, led by Société Générale, and one by Moravel which at the time was a GML company. The original loans were \$1 billion from the banks, and \$1.6 billion from Moravel.

These had been reduced by payments that Yukos had made: at the time they stopped making payments, there was about \$350 million due to the banks, and about \$600 million to Moravel. This then increased by interest, fines and penalties.

In March 2006, the banks applied to have Yukos put into bankruptcy because it hadn't paid its debt. It was Société Générale, but it transpires that, in fact, they were doing it on Rosneft's behalf. Rosneft had already given them a guarantee — that was an agreement between the banks and Rosneft — that Rosneft would pay the banks 100 cents in the dollar, principal and interest, if and when Yukos went into bankruptcy. So, it was in the banks' best interests to put it into bankruptcy.

Mr Putin kept saying he had no intention of putting Yukos into bankruptcy, he 'didn't want to put Yukos into bankruptcy'. He said he didn't want to do it, and he will tell you

even today that he didn't do it, in a typically Russian way. He manipulated others into doing the dirty work!

Even though the tax claims against Yukos were so large, it appeared that if the company's assets were sold on the open market, they would more than cover the alleged debts and leave a surplus that would revert to Yukos's shareholders, the most important of whom were Leonid Nevzlin and his colleagues (Khodorkovsky, as we have seen, was out of the game by now, having assigned his interest in the company to Nevzlin).

The idea that any benefit should go to Moscow's sworn enemies, however, was so unpalatable to the Kremlin that Tim Osborne believes the receiver was instructed to manipulate the prices at which Yukos's assets were sold:

The court put Yukos into bankruptcy. Mr Rebgun was appointed receiver with a mandate to sell the assets and complete the bankruptcy within a year. He has gone on and now sold all the Yukos assets. Some of them sold at relatively close to their commercial value, where that commercial value was self-evident. If they were quoted shares or something like that, he's had to keep pretty close to that. But in other cases he has sold at a gross undervalue.

The most blatant example of underpricing, according to Osborne, was the auction of Yuganskneftegaz, which brought no return to Yukos because the proceeds were snapped up by the Russian tax authorities. The auction allowed the Siloviki friends of the President to snap up a jewel of the oil industry at a ludicrously low price:

Yuganskneftegaz was producing about a million barrels of oil a day, which is 60 per cent of Yukos's production and 2 per cent of the world's production. So a significant concern.

There were lots of things wrong with that auction. They said it was public, but nobody that we ever talked to could get registered.

The only two people that were registered were Gazpromneft, which was the oil production subsidiary of Gazprom, and a company called Baikalfinans, which was a \$2 company, set up in some non-Moscow part of Russia. It bid twice: it bid first at about \$9.3 billion, then Gazprom were asked if they were going to bid. They [asked if they] could they go and make a phone call. When they came back, they said they weren't bidding. Baikal then bid against itself, put the bid up to \$9.7 billion, and had it knocked down to it. We still don't know where Baikal got their money from . . . but we do know that about ten days later they were acquired by [state-owned] Rosneft!

Tim Osborne feels strongly that the rigged auction deprived GML of billions of dollars — money that could have been used to pay its tax debts and keep Yukos afloat. He says the price paid for Yuganskneftegaz was a fraction of its true value:

Well, the Russian government's own valuers, Dresdner Kleinwort Benson, put a valuation of \$16.6 billion on it. Yukos had a valuation done by Morgan Stanley, at about \$18 or \$19 billion. Dresdner was so incensed at the amount it was sold at — and the fact that it kept being said that Dresdner had done the valuation — that Dresdner put out a disclaimer saying, 'This is actually what we valued it at'. And just to complete the story, Rosneft bought 75 per cent of Yuganskneftegaz for this \$9.7 billion, but they included the same 75 per cent in their July 2006 IPO [initial public offering], at \$60 billion! . . . If they'd sold Yuganskneftegaz at its real value, all the tax bills could have been cleared.

Osborne points to two other key Yukos assets that he believes the Kremlin deliberately sold off well below their true value. He says the purpose was clear — to ensure that the auction revenues were just enough to pay off the alleged debts to the state without leaving any surplus that would benefit the GML owners:

In particular there were two operating subsidiaries, the two oil producers, which were each about one-third of the size of Yuganskneftegaz — Samaraneftgaz and Tomskneft. They each sold for \$6.7 billion, which is nowhere near approaching the 2006 valuation of them that would be implied from the Rosneft IPO.

Our view was that those two operating subsidiaries should have been going for approximately \$20 billion each, in which case the company was never bankrupt!

The [auction prices] were carefully managed to be less than the liabilities. But now the bankruptcy has gone on. The assets have been sold. I read in the paper that all the Yukos filling station sites are being renamed, so even the name is disappearing.

It's always been my view that the aim was to have Yukos disappear a couple of months before the [March 2008] presidential election — to get it off the agenda.

The British troika at the helm of GML did manage to score one victory over the Kremlin. The receiver Eduard Rebgun attempted in 2006 to gain control of Yukos's remaining assets outside Russia, including oil refineries in Lithuania and a pipeline in Slovakia. It seemed to Tim Osborne and his partners that Moscow was trying to repeat the chicanery of the previous auctions and sell them to a Kremlin-friendly Russian firm at a knockdown price. So they applied for a blocking order to a court in Holland, where the Yukos company holding the assets was registered. The court agreed and gave that company the right to sell the assets to a buyer of its choice. It allowed Yukos to realize a decent return for the Lithuanian refineries and — crucially — to repay its loan plus interest to Moravel (essentially to GML itself) totalling in excess of \$800 million.

Unfortunately for Osborne, the Kremlin did not appreciate his effrontery in opposing Moscow's plans and decided to teach him a lesson: as soon as the Dutch court ruled against them in 2006, the Russian authorities announced they were starting an investigation into him and into Bruce Misamore, Stephen Theede and Dave Godfrey:

Yes. The Dutch court rejected Rebgun's claim in the morning, and in the afternoon they announced a criminal investigation into me and the three others.

What they say is that we actually pocketed the money — so we're supposed to have gone off with \$10 billion! I have no idea where they got that from. And as I've said on more than one occasion, if I had \$10 billion, I wouldn't be sitting here!

The Foreign Office has sent official protests requesting that these [proceedings] be withdrawn. The Russians have written back saying, 'We have an independent prosecution service; we can't interfere.'

My lawyer has written three times to the Prosecutor's Office, and my Member of Parliament has written to the Russian Embassy, saying 'If you want to talk to Tim Osborne, he's got nothing to hide. He's very happy to be interviewed in London, any time.' We haven't even had an acknowledgement.

It is only — if only is the right word — an investigation. There are no charges, as yet, as far as we can tell, and I think it is just bully-boy tactics to intimidate me.

At the start it was slightly worrying, and we had the police round sweeping the offices and looking at security at home, those sorts of things. People got a little paranoid for a while, but I think they've all sort of shrugged their shoulders and decided to get on with it.

Had I foreseen all this in March 2004, I wouldn't have taken the job on. I mean it just wasn't what I was trained to do, or signed up for.

A Canadian gambit

Throughout the months of on–off negotiations, the Kremlin repeatedly stated it was not conducting a vendetta against Yukos and that it did not want to bankrupt the company. There was a very public show of hand-washing from President Putin, who was at pains to suggest he was not personally involved in the affair and there was nothing political about it. There was a concerted effort to make out that Yukos’s problems were simply a matter of unpaid taxes resulting from the questionable behaviour of a group of its executives — this is a local problem, a routine criminal story, the Kremlin kept saying, as it strove to convince the rest of the world there was nothing to worry about.

The reasons were clear: any perception that the Russian state was confiscating private companies for political reasons could lead to a withdrawal of Western investment, tougher conditions for Russian companies looking for Western loans and a devastating capital flight out of a country perceived to be unreliable or unfriendly to business.

The result was that for months on end the Kremlin kept Yukos dangling, putting it under relentless pressure but being careful not to be seen to bring about its collapse. There was a protracted cat and mouse game that repeatedly seemed to offer a negotiated solution in return for a negotiated payment of back taxes, and then whisked it away again. Tim Osborne would later complain in a speech in Washington that:

The Russian government has repeatedly stated that its objectives were simply the even-handed execution of Russian law. On numerous occasions, the Russian government stated it had no intention of destroying or bankrupting Yukos, and that the state had no plan to re-nationalize Yukos’s assets and resources. The Russian government publicized that it was receptive to a negotiated settlement of the tax issues. Contrarily, the Russian government refused to discuss or negotiate a settlement! They froze Yukos’s assets, eliminating Yukos’s cash resources to pay taxes. With Yukos under siege, the Russian government initiated actions with several banks to push Yukos into bankruptcy. A few simple numbers provide the context for the absurdity of the Russian authorities’ tax claims. Yukos had already paid \$15 billion in taxes for the period of 2000 through 2003, on total gross income for that period of \$29 billion. Thus, the taxes paid amounted to approximately 52 per cent of gross income. Beyond that amount, the Russian authorities alleged that Yukos owed an additional \$27 billion for that period, bringing Yukos’s total tax liability for the period to over \$42 billion, greater than 100 per cent of the company’s gross income! This is not taxation. This is confiscation.

In June 2004, the nirvana of a negotiated solution had seemed tantalizingly

within Yukos's grasp. The Kremlin was deliberately keeping the possibility alive. The Finance Minister Alexei Kudrin told the media, 'we are cooperating with Yukos on the possibility of settling the claim'. Vladimir Putin announced, 'The authorities of the Russian Federation, Russia's government and Russia's economic authorities are not interested in the bankruptcy of a company like Yukos . . . the government will do what it can so as not to bring down the company'.

The directors of Yukos's parent company, GML — not realizing the whole thing was a cruel charade — were encouraged by the President's promises. They responded with an initiative they hoped would prove their commitment to solving the dispute. In July 2004, GML appointed the recently retired Prime Minister of Canada, Jean Chrétien, as its confidential emissary to the Kremlin.

In his ten years in office, Chrétien had built a reputation as an international statesman and forged a good relationship with Moscow. He knew Vladimir Putin personally and was considered an excellent conduit for the company's efforts to settle the tax claim.

A remarkable correspondence ensued with a series of proposals from Chrétien addressed directly to Vladimir Putin. I have copies of all Chrétien's letters, and it is striking how the tone declines from initial cordial optimism to puzzlement and, eventually, frustration.

On 6 July 2004, Chrétien writes to Putin's then Prime Minister, Mikhail Fradkov:

I am submitting this proposal in good faith and in an effort to resolve all tax issues. In order to effectuate a final settlement of these matters, Yukos is prepared to offer a global settlement of eight billion dollars within 24 months . . . This offer is made in the interest of both Yukos and the Government. As a result of this settlement and in order to allow the payments to be made, the Government will agree to remove the freeze on Yukos's bank accounts as well as the freeze on asset sales . . . If you wish to be in touch with me at any time, you can reach me through the Prime Minister's Office in Canada, telephone 613 xxx xxxx.

The letter is cool and formal: the implication is that 'we are offering you a good deal, so you would be well advised to contact me and take it'. Evidently, though, the Kremlin is in no hurry to contact Chrétien, because his next letter, dated 15 July, restates the terms of the Yukos offer and again asks the Prime Minister to get in touch. This time there is more urgency in Chrétien's tone: he is almost forcing the money into Fradkov's hand:

Further to and in support of the proposal of 6 July, Yukos is making a partial cash payment immediately as a sign of good faith and as evidence of the company's intention to honour its obligations to your government and to honour the terms as described in that proposal. I hope that your government accepts this proposal in the spirit in which it is made . . . Please contact me in relation to this matter . . . I look forward to resolving this matter with you.

Again the Kremlin seems to have maintained a stony silence. So Chrétien's next move is to by-pass the Prime Minister and go straight to the man at the top. This time he appears at least to have made contact. A letter dated 30 July 2004 begins with the typed words 'Dear Mr President', which are crossed out and substituted with a handwritten, 'Dear Vladimir':

Thank you for taking the time to speak with me again on the Yukos matter. In accordance with your recommendations at our last meeting, I delivered a written proposal to Prime Minister Fradkov to settle all Yukos taxation matters. I have not yet received a reply to that proposal. In the meantime, the crisis with Yukos has been escalating. I very much appreciate that you will now ensure that I receive a response. As we discussed at our meeting in July, it is important to me to help you restore stability to Russia's capital markets and petroleum industry. I believe that these objectives will be advanced through the stabilization of Yukos as a viable Russian corporate citizen . . . I therefore recommend that I resolve the Yukos tax issues with your government in accordance with this proposal. Please have the Minister of Justice Mr Chaika contact me. I am available to travel to Moscow immediately to have discussions with Mr Chaika as soon as it can be arranged with him . . . I look forward to working with your government to resolve these issues. I will keep you personally aware of any significant developments.

By 10 September, Chrétien's tone is getting desperate. Chaika has clearly not got back to him and Chrétien is reduced, rather forlornly, to upping his offer. His letter informs Putin that Yukos has voluntarily paid \$2.5 billion of outstanding tax arrears; he proposes to waive \$0.7 billion that the company is owed by the tax authorities in VAT rebates; and he proffers a further immediate cash payment if only the Kremlin will accept it. Further, Chrétien says Yukos is willing to sell off its remaining shares in Sibneft and hand the proceeds, estimated at \$3–4 billion, to the Russian authorities. Finally, he says, 'I am making arrangements with major international banks to secure financing for any balance owing on the global tax settlement after all these steps are taken.' Interestingly, Chrétien reveals he has begun discussions with the French oil company, Total, with a view to selling them part of Yukos 'as soon as certainty can be provided on the tax matters':

It is my intention to work with Total to help stabilize the operation of Yukos and ensure it is reinstated as a productive corporate tax-paying citizen in Russia. After your recent meetings with President Chirac and Chancellor Schroeder, President Chirac apprised me that you will shortly be sending me a letter with your thoughts on how to proceed on Yukos . . . I would hope to resolve the amount of a global tax settlement with you in order to finalize my arrangements to have it paid. I will respond immediately once I receive your letter.

It is a rather sad plea and it evidently elicited no reply from Putin. Chrétien's next and final letter is dated 17 November and the tone is one of injured

pride. This time there is no jolly 'Dear Vladimir' to replace the typed 'Dear Mr President':

When we last met in Moscow, you told me I could take the mandate to represent the interests of Group Menatep and possibly the other minority shareholders in Yukos, to find a solution to the tax problems confronting them. I have worked very hard trying to open a meaningful dialogue . . . You assured me that a response from the Minister responsible for this file would be forthcoming . . . but I have received no communications from your government. I am very disappointed by that.

Instead of flattering and pleading, the letter now reflects GML's growing realization that the Kremlin has been stringing it along all the time and never had any intention of keeping its promise to negotiate in good faith:

Over the last few months, circumstances surrounding Yukos have developed in a manner which in the eyes of the world is not credible. A few months ago there were suggestions that the value of Yuganskneftegaz was considered to be in the range of \$10.5 billion. There were further indications that the Russian tax authorities were coincidentally going to issue [tax] assessments against Yukos in the amount of \$10.5 billion . . . in order to be able to take over ownership of the subsidiary for the assessed amounts. This would effectively have been expropriation without compensation, which is of course illegal under both Russian and international law. As you know, tax assessments were never issued for \$10.5 billion because a little over a month ago, the valuation commissioned by the Ministry of Justice was delivered from Dresdner Kleinwort Wasserstein. It valued Yuganskneftegaz at about \$18 billion. The tax authorities instead issued assessments which now approach this \$18 billion figure. I and my team of experts have concluded that the sudden matching of the tax assessments to the apparent valuation of the subsidiary is nonsensical and so out of step with Yukos's actual revenues as to be ridiculous.

The scales have fallen from GML's collective eyes: there is a realization that the Kremlin has been deceiving them and a negotiated deal is not going to happen. Since it now seems Putin is set on bankrupting them, they have decided to let him know what they think about him. Now there is a covert hint of a threat:

As you know, several governments have made representations to your government for the protection of savings (many of which are the retirement savings of pensioners) and investments of their citizens who showed faith in Russia by investing in Yukos. I have had discussions with President Chirac of France, Chancellor Schroeder of Germany, Prime Minister Persson of Sweden and senior officials in the White House. All of those I spoke to expressed their hope that this saga will come to fair end for all parties involved, since the current dispute is shaking the international community's faith in Russia's law and practice. I am proposing to work with your government to reach a

settlement that is fully respectful of the rule of law both nationally and internationally. If that can be achieved, the international community would reverse its current concerns over the dangers of investing in Russia and the flight of foreign investment would quickly flow back to your country . . . I salute you with great respect, my friend and former G-8 colleague.

A month later, and with still no reply from the Kremlin, Chrétien gave vent to his true feelings about the Yukos saga in a speech he made in Kazakhstan. 'Yukos Oil', he told his audience, 'is one of the most disturbing and widely talked about situations in the international community. It is becoming an epic tragedy which, if it continues, will damage Russia economically and politically':

Yukos was Russia's 'poster child', showing how far the country was successfully integrating into the international business community and holding out promise to Western capital that Russia was a safe, strong and exciting place to invest. Yukos had the highest incidence of foreign investors of all Russian companies. It employed more Western business practices, accounting standards and operational characteristics than any Russian company . . . But Yukos is now a large and daily warning to the rest of the world that Russia is a precarious place to do business, where the rule of law and property rights of individual investors, both domestic and international, are summarily dismissed, if they are even considered at all. The world believes . . . that Russia allowed a political dispute to overwhelm its good sense and judgment. The claims against Yukos are too extreme for anyone in the world to accept. The facts are that Yukos paid a higher percentage of tax than any other large Russian company . . . on the basis of business practices and accounting rules that most large Russian companies followed. [But] the Russian Ministry of Justice was looking for an excuse to attack Yukos and claimed these business and accounting practices were inappropriate. This claim is not credible under Russian law. The Russian government ignored its own rules and issued tax assessments that . . . exceeded the company's own gross revenues. Yukos tried everything it can to resolve this dispute . . . offering to pay far more than the actual taxes that could conceivably be owed. The Minister of Justice . . . has consistently ignored the proposals and blatantly refused even to respond in any way. There can be no other logical or rational conclusion: the Ministry of Justice is intent on expropriating Yukos without compensation. There will be no assurances the Russian government can give foreign investors that this will not happen again. Arbitrary political actions which ignore property rights will lose Russia credibility with the international community that can take decades to regain.

Negotiations with the Kremlin were well and truly at an end.

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The Brits bite back

Having tried and failed to negotiate, the British directors of GML concluded the only way forward was legal action. In 2005 GML subsidiaries holding shares in Yukos embarked on the daunting task of suing the Kremlin for the billions of dollars they claim were stolen from them. Tim Osborne and his partners took up the unenviable burden of battling the Kremlin in the courts of Europe and North America:

We some time ago decided we really were making no progress with the Russian authorities, so we decided that our only recourse was litigation. We researched the alternatives, and ultimately decided that the best option available to us was a claim under something called the Energy Charter Treaty, which I'd actually never heard of.

The Energy Charter Treaty (ECT) was a useful vehicle for the GML claim, because its central aim is to protect investors in the oil and gas industries from unfair treatment by national governments. The ECT is a multinational treaty signed by fifty-one governments and guaranteeing a level playing field for investors of one state in another state. When it was agreed in the early 1990s, it was welcomed by the Russian Federation because it gave foreign investors the reassurance they needed to put their money into places like Russia, which had previously been shunned as too high risk. Emmanuel Gaillard, the Paris-based lawyer considered to be the world's leading specialist in international arbitration matters, told me the signing of the ECT gave guarantees to investors from Western countries that they would not be discriminated against and their investments would not be appropriated:

Briefly, it is an East–West mechanism, because in the 1990s everybody realized in the aftermath of the collapse of the USSR that these countries in the East needed massive injections of capital. They wanted this capital. In order to achieve that, you needed to reassure investors that they would be treated fairly and, if there is a problem, an independent judge, an arbitrator, somewhere in a neutral country, would decide whether or not they were treated fairly, they were discriminated against or expropriated or whatever. Everybody was on the same page on this, so some fifty countries negotiating, more than fifty, made a political instrument, which was the Energy Charter.

The case GML's subsidiaries brought under the ECT was that they were qualifying foreign investors in Russia (being registered in Cyprus and the Isle of Man), that they had been discriminated against (since no other oil company in Russia had been subjected to the same harsh treatment) and that their

assets had been expropriated by the state (since the state controls Rosneft, the principal recipient of Yukos's assets).

Because the ECT prescribes that disputes between states and investors on alleged violations of the treaty shall be settled by arbitration, the Kremlin was obliged to engage with GML's claim. It appointed legal representation for a hearing before the Permanent Court of Arbitration in The Hague over two weeks in November 2008, which heard arguments on the admissibility of the GML claim.

Tim Osborne said he was heartened that Moscow would be judged in a Western court with Western standards of justice and a potentially binding outcome. But there were problems that had to be overcome before GML could get 'its' money back.

The first was that the amounts involved were stupendously high. GML was not required to put a figure on its claim unless and until the tribunal were to rule it admissible, but a successful claim would make Russia liable for the full value of what GML's investment in Yukos would be worth at current prices, making this by far the largest arbitration in history. The company was valued at around \$30 billion in 2003; but, the GML lawyers argued, Khodorkovsky was on the point of signing a highly lucrative deal with ExxonMobil or ChevronTexaco to create a conglomerate of infinitely higher potential value. A successful claim could see Moscow having to hand over \$100 billion or more.

With stakes as high as that, it was hardly surprising that the Kremlin was determined to fight the GML suit every step of the way. Moscow contended that the GML claim was inadmissible and that the Court had no jurisdiction to hear it. At the hearing in November 2008, it argued that there were two grounds on which the Court should refuse to hear the case. The first was that GML and its subsidiaries are owned and controlled by Russian nationals and cannot therefore sue the Russian state. Tim Osborne disagreed:

The [Russian lawyers] say, 'Well, you're just Russians suing Russia, and that's not appropriate for an international treaty'. Our view on that is, on a completely Russian-based logic, we're not — because we're a Cyprus company, and an Isle of Man company, both of which are within the Energy Charter Treaty group of countries. Even if you take their logic, there's nothing in the treaty that says a national can't sue his own country under the treaty, in the same way that under the Treaty of Rome, there's nothing that says a Brit can't sue the British government.

The second Russian argument was potentially more difficult — that Moscow is technically not bound by the Energy Charter Treaty at all. Along with fifty other countries, Russia signed the ECT in December 1994, but the Russian parliament did not subsequently ratify it. With most international treaties that are subject to ratification, such an outcome would indeed mean a country was not bound; but Emmanuel Gaillard, who was hired to represent GML, said this is specifically not the case with the ECT:

Everybody at the time [of the treaty negotiations] was in a rush to say, ‘Look, we are in a hurry’. And the Russians — that is a very important point — were the first to say, ‘Look, we do not want to waste time here; it is a multilateral instrument, we are in a rush’. Everybody was in a rush, so, as is sometimes the case in these multilateral negotiations, they decided to make the treaty provisionally applicable, unless states who had problems with their Constitution, with their laws etc., opted out. So they said, ‘Look, when you sign, you are bound to apply it provisionally, but you can sign and later opt out; if you have a problem with your Constitution, you can opt out’. But you have to actively opt out . . . and Russia has not done that.

Tim Osborne, a lawyer himself, was even more categorical:

With most international treaties, if the prime minister turns up and signs it, you’re not bound by it until parliament ratifies it. But in the Energy Charter Treaty there is a very specific provision that says, ‘if you sign it, you’re bound by it, *unless you opt out of it* because your Constitution prohibits you from being bound by it’. Now, we know Russia understands that, because they’ve signed the treaty itself and not opted out (and that’s the bit that matters to us), whereas there’s a subsidiary trade amendment that they’ve signed and *have* specifically opted out of . . . and finally there’s a transit protocol that they haven’t signed at all. So, they’ve got all the three options there. We know they apply treaties provisionally as a normal practice in Russia — for instance, the Bering Sea Maritime Boundary Agreement with the US has never been ratified, only been signed, and that’s been provisionally applied for nearly fifty years.

There is indeed a formal provision in the ECT for signatory states to opt out. It requires the giving of sixty days’ notice, after which new investments in the country will no longer be protected. In April 2009, Vladimir Putin said he saw no reason why Russia should remain a signatory to the ECT and instructed the Energy Ministry and the Foreign Ministry to look into revoking its membership. At the end of August, with the judges in The Hague considering their ruling on the GML suit, Prime Minister Putin announced that his parliament would not ratify the ECT and that the decision had been taken to suspend its temporary application in Russia.

In an open letter to the Russian media, a former Secretary General of the ECT claimed it was the fear of losing the GML case that had prompted the move. But he pointed out that revoking its membership of the Treaty would not help Russia: investments made at any time prior to the expiry of the sixty-day notice period for withdrawal remain protected for a further twenty years.

On 30 November the judges in the Hague announced that they agreed with him. They ruled that Russia was indeed bound by the Treaty, that GML was entitled to Treaty protection and that the Court did have the requisite jurisdiction to hear the claim. They would therefore proceed to consider the merits of the case — did Russia discriminate against GML and did it appropriate its assets (i.e. Yukos)? Tim Osborne welcomed the ruling as ‘a huge step forward’:

The decision on jurisdiction and admissibility is the key. Now we have prevailed on that, I find it very difficult to see how we can lose. Then, of course, we get into 'How much [money] did you lose?' and 'Can you collect it?' but those are better questions than we were dealing with before! I think we may well get an approach from the Russians between the hearings and the decision. They're going to know that if we've survived jurisdiction and admissibility, we're not going to lose on substance: we were clearly discriminated against. They'll know they've got to pay more than if they'd come earlier, but it depends what they throw into the pot: are they talking about people's liberty? Are they just talking about pounds, shillings and pence? It will be an intriguing time.

For the new Russian president, Dmitry Medvedev, the prospect of having to pay billions of dollars to GML, a company founded by a man the Kremlin sent to a labour camp, would be deeply problematical. He would have to decide whether to do an out-of-court deal, or to fight the case to its bitter and potentially humiliating end. A final judgement against the Kremlin would raise the sensational prospect of Russian state property around the world — investments and companies owned by state corporations such as Aeroflot, Rosneft or Gazprom — being seized by bailiffs on behalf of GML. And it would re-open the whole question of Khodorkovsky's guilt and whether he should be in gaol in the first place.

GML, Yukos and their former executives were also fighting battles in other international courts, and in the court of world opinion. One of the aims in all the legal proceedings was to demonstrate the political nature of the Kremlin's actions against Yukos, and they had some success in doing this.

In October 2007, the European Court of Human Rights in Strasbourg ruled that Russia had infringed Platon Lebedev's rights during his arrest and pre-trial detention. The Court found that he had been illegally detained; that his lawyers were improperly denied access to the court hearing on his initial detention; and that there were serious procedural flaws involving delays in judicial reviews of appeals against the extension of his pre-trial detention. Anton Drel, who had led the action against the Kremlin, was triumphant:

Today's decision by the European Court of Human Rights [ECHR] is an important victory for rule of law and human rights in Russia, and it is important for Platon Lebedev personally. It conclusively demonstrates that the Russian authorities have been guilty — from the very beginning — of grave legal misconduct in their prosecution of Mr Lebedev and others arrested and deprived of justice in connection with the so-called Yukos affair. We call on the Russian authorities to respect today's judgment, which will have far-reaching implications, and to cease the unlawful persecution of innocent people. Fairness demands that both Mr Lebedev and Mr Khodorkovsky, who have now served half their sentences and whose basic rights the ECHR has found to have been systematically violated, should be freed from prison immediately and allowed to return to their families and homes in Russia, where they wish to continue

to live and work, making their contribution to the economic and political future of the Russian people.

Drel pointed out that further complaints were pending, requesting the Human Rights Court to rule on the fairness or otherwise of the trial of Lebedev and Khodorkovsky and on the political nature of the charges against them. He concluded, rather cheekily, by congratulating Russia on 'taking the ECHR ruling seriously':

We are pleased that the Russian Federation considers the decision in the Lebedev case to be of great importance, raising serious issues of significance for all of Europe . . . as witnessed by the announcement by Russia that it intends to appeal the decision by invoking article 44 of the Convention. By way of explanation, article 44 paragraph 2 allows a decision to be appealed against only when a serious question concerning the interpretation or application of provisions of the Convention or its Protocols, or another serious question of a general nature, is at issue.

Also in 2007, the Supreme Court in Switzerland issued a decision that the charges against Yukos and its executives were politically motivated. The court was ruling on a request to the Swiss authorities by the Russian Prosecutor's Office asking for the release of confidential documents regarding Yukos's financial holdings in Switzerland. The tribunal in Lausanne refused the request, citing arguments that the criminal proceedings in Moscow were discriminatory and politically motivated. It said 'concrete facts lead to the inference that the appellant is under pursuit for hidden motives, notably in relation to his political opinions', and concluded that the Kremlin had brought the criminal case against Khodorkovsky to 'sideline its declared or potential political adversaries'.

The ruling meant residual funds in Swiss bank accounts could be unblocked and returned to the GML owners. But it was the recognition of the political character of the Yukos affair by an independent court that represented the greatest achievement for GML.

The same conclusion was reached by a Dutch court in October 2007 when it ruled that the Russian receiver should not be allowed to sell Yukos assets on Dutch soil. The court said it would not recognize the fairness of Moscow's legal campaign against the company: 'Yukos Oil has been deprived of a fair trial in the determination of the amount of taxes it owed to the Russian state . . . the proceedings against Yukos are invalid under Dutch law'.

The former Czech President, Vaclav Havel, himself revered for his courage as a dissident voice during Communist rule in Czechoslovakia, wrote an open letter to the Russian authorities. He and twenty-six other human rights activists said Khodorkovsky had been 'selectively convicted . . . as the result of political manipulation . . . because he openly expressed sympathy with the Russian political opposition and criticized the views of the Kremlin'. 'All those interested

in democracy, legality and justice in Russia', Havel concluded, 'should now show him the support accorded to political prisoners'.

Several cases in British courts added to the growing body of international legal opinion that the Yukos and Khodorkovsky cases were politically motivated. After the arrests of the Yukos bosses in 2003, at least a dozen senior executives of the company fled to the UK, where they asked for political asylum. The grounds for their request was that they were facing, or were likely to face, charges in connection with the proceedings against Yukos. Since these proceedings were, they claimed, politically motivated, the British courts should regard them as political refugees. By asking for these contentions to be tested in court, the applicants were effectively asking the British justice system to rule on the political nature of the Kremlin's charges against Mikhail Khodorkovsky.

In every ruling handed down so far in a British court, the decision has been that the Khodorkovsky case was indeed a political one and that the applicants' request for asylum in Britain should therefore be granted.

At the end of 2005, the Russian government demanded the extradition of several refugees including Alexander Temerko, the senior Yukos man who had led negotiations with the Kremlin following the arrest of Khodorkovsky. Temerko was an important test case because he was such a prominent figure in the affair.

The judge at London's Bow Street Magistrates Court was Timothy Workman. He set out the grounds on which a refugee could not be sent back to his home country, including instances where 'the request for extradition is made for the purpose of prosecuting him or punishing him for his political opinions'; where 'he might if returned be prejudiced at his trial or punished, detained or restricted in his personal liberty by reason of his political opinions'; or where 'his rights under the European Convention will be violated if he is returned and he will not receive a fair trial'. In determining the merits of the Temerko application, Judge Workman said he had had to decide if the Khodorkovsky trial had itself been politically motivated. On this matter he concluded:

I have seen a report prepared by the Russian Prosecutor advising President Putin that there were no grounds for taking action [on the Apatit charges against Yukos] . . . The matter was the subject of civil proceedings, which were settled . . . Despite that decision, a prosecution was launched two months later . . . I have reached the inevitable conclusion that President Putin directed that Mr Khodorkovsky should be prosecuted. This finding would amount to cogent evidence that the prosecution was politically motivated . . .

In 2000, President Putin publicly announced his intention to 'destroy the oligarchs as a class', but by the year 2003 Mikhail Khodorkovsky and his Yukos company had become financially and politically influential . . . In October, Mr Khodorkovsky was arrested . . . I am satisfied on the evidence that it is more likely than not that the prosecution of Mr Khodorkovsky is politically motivated. The overwhelming weight of the background material indicates that Mr Khodorkovsky's case was a political trial.

As the allegation against these defendants is on the basis of a conspiracy with Mr Khodorkovsky, in my view it is the inevitable conclusion that the prosecution of the defendants is also politically motivated . . .

I am satisfied that the request for Mr Temerko's extradition is in fact made for the purpose of prosecuting or punishing him for his political opinions. I can see no reason to doubt the evidence that the authorities' underlying motives include the eradication of Khodorkovsky's power and influence and that Mr Temerko is central to this objective given his seniority in the company and proximity to Khodorkovsky.

I am satisfied that, if he were extradited, he would be prejudiced at his trial and punished or detained by reasons of his political opinions.

Having ruled on the political nature of the Yukos case, Judge Workman then considered whether Temerko and the other defendants would receive a fair trial if they were to be returned to Russia. He cited the treatment of Lebedev and Pichugin as evidence that they would not:

The Council of Europe found that lawyers had been prevented contact with their clients, denied access to courtrooms during hearings and had their offices searched and documents seized . . .

Having reached those conclusions in relation to other Yukos employees who are subject to detention and trial, the overwhelming conclusion is that if these defendants were returned they would be highly likely to be treated in a similar manner, in breach of their human rights and with grave prejudice to the preparation of their defence . . .

In this particular case, I am satisfied that it is so politically motivated that there is a substantial risk that the Judges of the Moscow City Court would succumb to political interference in a way that would call into question their independence . . .

The application for extradition is therefore refused and the defendants are discharged.

The indictment of the Russian case against Yukos and its executives could hardly have been more comprehensive, nor — given the position of the person making it — more authoritative.

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Cashing in the profits

Although GML owned a majority interest in Yukos, part of Yukos was owned by independent shareholders in Russia and abroad. When Yukos shares were made worthless following the Kremlin's massive tax demands and legal proceedings, two groups of investors got together to launch their own law suits in parallel to the claim GML was pursuing against the Russian authorities.

The first group was made up of former Yukos workers who had been enrolled in the company's pension scheme. Very few Russian firms offer their workers pensions, but Yukos had taken the lead by promising long-term employees an interest in the company. Ten per cent of Yukos shares were set aside in a trust fund that would guarantee them a payment on retirement. Emmanuel Gaillard says it was a scheme that worked well until it collapsed after Yukos was bankrupted:

The trust, which they called the Veteran Petroleum Limited Trust, was given a number of shares, some 10 per cent of the shares. The trust is still in place and we represent the company. It is a Jersey trust and it is protected. If we prevail, we will pay out the amounts to the workers. So we will do it like in a class action in the US: we will take out advertisements and say that former Yukos workers and their families can apply to have the money paid. We will distribute some 500 million dollars to the pension: it is a tranche which is for the workers.

The suit on behalf of the Yukos pensioners is being driven by the same lawyers who are running GML's action against the Kremlin; if GML win, then the pensioners win, too.

The second group to take action were those investors in the US who had purchased Yukos ADRs — essentially bundles of shares that the US Securities and Exchange Commission had authorized for sale on the New York markets. The US investors owned approximately 15 per cent of Yukos, and when their shares were made worthless they went looking for justice.

Their lawyers told the US District Court in Washington that Yukos was stolen from them by the Kremlin when it issued 'unlawful' tax demands: 'Russia nationalized Yukos and gave its shareholders no compensation', their lead attorney told the court. 'They stole this company. They can't do that!'

The action was brought by forty investors on behalf of a wider group of American institutional shareholders, including large US pension funds, who had held \$6.7 billion of Yukos stock. The suit demanded compensation of about \$12 billion, but quickly ran into problems of legal jurisdiction. Because the US is not a signatory to the Energy Charter Treaty, its citizens could not invoke the

same protections that the GML subsidiaries registered in Cyprus and the Isle of Man were using in their legal action. Emmanuel Gaillard believed the US investors were always doomed to fail:

In this case, the Americans shot themselves in the foot, because their bilateral treaty with Russia is not ratified and there is no provisional application mechanism, nothing. So when the American investors in Yukos sued in the US, it was very hard. You are bound to lose, because there is no protection. The [Russian] state has immunity. There are all kinds of legal problems.

If the US had ratified the ECT, or even signed it and applied it provisionally, the American investors would have been protected. To be protected, you cannot be a citizen of a third party.

In late 2007 the US District Court ruled that it did not have the jurisdiction to try the case. The disgruntled shareholders appealed to the American government to intervene on their behalf by taking up the compensation demands directly with the Kremlin. So far there has been no enthusiasm from the White House to do so.

Shortly after the court ruling, Tim Osborne was invited to Washington to address the House Financial Services Committee of the US Congress. He gave a stark warning that the US should not underestimate the dangers that the Kremlin's attack on Yukos represented for economic rights and freedoms in Russia and in the rest of the world:

American investors, as well as investors worldwide, should be alarmed at the lack of investor protection and corporate governance in Russia.

Let me be clear: the Yukos case is about the improper and illegal persecution and seizure of legitimate individual corporate and private assets for the political and financial benefit of the Russian state . . .

The past four years have seen a veritable onslaught against GML, its holdings, and its shareholders by the Russian authorities, against the backdrop of a profound retreat in democratic developments in Russia. This includes the abandonment of the rule of law, collapse of an independent judiciary, as well as a breakdown of corporate governance, investor protections and business transparency.

Beyond the obvious problems faced by the direct targets of the Russian authorities, American minority shareholders in Yukos have lost \$6 billion.

The Russian government has made clear that the expropriation of their investment is acceptable and permissible collateral damage.

The impact of these events on American investors is dire . . . and will continue to be so if it goes unchecked.

Part of Osborne's purpose in addressing the Washington lawmakers was to mobilize international opinion behind his campaign to seek redress from the Kremlin. His underlying message was that Western investors can exert real

influence over Russia's behaviour by insisting on greater respect for private enterprise before they agree to buy Russian stocks:

I think the great lesson Western investors have to learn is that if you go into Russia today — and this is what I said to the House on Wednesday — you're actually playing Russian roulette with your own finances. The good guys can become bad guys very quickly in Russia.

I think the other thing is, countries from where the Western investors come need to find a way of calling the Russians to book in London or in New York. Because you can't go to Moscow and sue anybody — you're wasting your time and money, and possibly putting your freedom at risk.

But if they [the Russians] come here and take our money — which Yukos did in the States and which Rosneft has done here in London — if somebody then steals that company's assets in Moscow, you should be able to bring a civil action against the stealer in London or in New York.

The right to redress is becoming increasingly important as more and more Russian firms attempt to list on Western stock exchanges. The biggest to do so was Rosneft, which launched its initial public offering (IPO) in London in July 2006. The flotation was the largest in Russian history and among the top five in the world. It raised over \$10 billion for the state-controlled corporation, with the initial share price valuing Rosneft at around \$80 billion. There was no shortage of buyers for the shares, including BP, Malaysian oil firms and the Chinese government. But the IPO caused a furious reaction from GML and other former Yukos shareholders who accused Moscow of selling property that had been stolen from them. An application to the High Court in London to block the flotation argued that Rosneft's acquisition of Yuganskneftegaz had been illegal and that the offering of Rosneft shares therefore constituted the sale of stolen property. The High Court struck down the argument and allowed the IPO to go ahead, but Khodorkovsky's lawyer Robert Amsterdam warned investors that their investment could be challenged in law:

This offering is all about legitimizing Rosneft's ill-gotten gains. The lion's share of the value of Rosneft is made up of assets formerly belonging to the Yukos oil company, built into one of the world's largest private oil companies by Mr Khodorkovsky.

With Mr Khodorkovsky and others gaoled on specious charges, and Yukos crumbling under the weight of baseless tax claims, Rosneft obtained billions of dollars worth of Yukos assets through a questionable auction orchestrated by the Kremlin.

These are the assets now being brought to the London Stock Exchange, with the assistance of bankers who have been crucial in bringing the expropriated assets to the London market.

It is undoubtedly the case that Rosneft attained its position of number one in Russia by snapping up Yukos. Before it acquired Yukos's three main

production units — Yuganskneftegaz, Samaraneftegaz and Tomskneft — Rosneft was a middle-ranking concern, Russia's number eight producer. Now its self-proclaimed valuation of \$80 billion showed that the price it paid for the Yukos assets was dramatically below market value. Bob Amsterdam said it was evident the state had dispossessed Khodorkovsky by underhand means:

This flotation presents foreign investors with a choice and an opportunity. The choice is whether or not to invest in what I consider stolen goods.

Choosing to invest in Rosneft is investing against human rights and against the rule of law, since brutal disrespect for both is what made the flotation possible.

The opportunity presented by the Rosneft flotation is to take a principled stand, responding with a resounding 'Nyet', to send a clear message to Moscow that the funds and the respect of foreign investors must be earned.

Unless governments and regulators of Western capital markets stop this financing, not only is it probable that investors foolish enough to purchase Rosneft will suffer the sort of shabby treatment meted out to Yukos shareholders, but their tacit support of these Russian initiatives will harm Western capital markets.

The inheritors of Khodorkovsky's empire, the executives of state-controlled Rosneft, were the Kremlin Siloviki who surrounded President Putin. Rosneft's chairman is Igor Sechin, the man who personally masterminded the confiscation of Yukos. Stanislav Menshikov, the respected Russian economist who worked for many years with John Kenneth Galbraith, says this pattern of personal enrichment from state assets is common among the Siloviki:

The real purpose of the attack on Yukos was to start redistributing property — taking it away from old oligarchic groups formed under Yeltsin and passing it on to new groups favoured by the current President.

Yukos is . . . a crown jewel in what could be called the Putin oligarchic group. This group exists and is already dominating natural gas, diamonds, armaments exports, Sberbank and Vneshtorgbank, the two largest commercial banks in Russia.

With the valuable addition of Yukos, it is by far the largest oligarchic group in the country, a source of dominant economic and political power exercised by the Kremlin.

Menshikov says the Siloviki do not 'own' Rosneft in the sense that the assets are their personal property, but they nonetheless benefit from its profits and cash flow:

Make no mistake, the Putin group operate outside the formal federal government, and its [Yukos's] financial flows will, as now, be separate from the federal budget. Putin's chosen men control this part of national expenditure and they will not be accountable to parliament or any other entity of public power.

There is little doubt that at least part of these money flows are ending up in private pockets or in private bank accounts.

Close to \$800 million annually of Gazprom's revenues from pumping Turkmenistan's gas via Ukraine further West through the company's pipelines is given away for free to Evral, a firm registered in Hungary and belonging to nominee persons. The final recipients of those millions are not yet established but will no doubt be found to be insider members of the Kremlin oligarchic clan.

This is also the future of Yukos after being merged into the web of the Putin group. What Stephen Curtis created for the benefit of Mikhail Khodorkovsky will become one of the profit centres for its new owners.

What we know for sure is that being too nosy about the current and aspiring super rich, particularly with close ties to the authorities, is a very risky business in Russia.

Because they own the profits but not the assets of the Russian state economy — and because ownership rights can quickly be confiscated in Russia, as the Yukos case demonstrated — the Siloviki have been looking for means to protect their new wealth. They have acquired great personal riches with unheard of speed, but the constant fear is that a change in the regime in the Kremlin — or a change in the group dominating power within the Kremlin — could see those riches taken away from them with equal rapidity. The Siloviki have therefore found ways to make their wealth permanent and 'legitimate'.

The influential politologist, Stanislav Belkovsky, says devices such as the Rosneft IPO are a means of 'legalizing and Westernizing' the Siloviki's fortunes to afford them some protection from possible future confiscation:

There are no differences between [oligarchs and Siloviki]: Roman Abramovich and Igor Sechin, as far as their ideology and philosophy are concerned, are completely the same. The only question is image, because one serious end result Vladimir Putin and his successors need . . . is this 'élite legalization' in the West — personally and as far as their assets are concerned.

'Legalization' means this élite have to become an integral part of the Western élite. They need their assets to be legalized and to be recognized in the West. Because their property, as they perceive it, could be protected only in the West, never in Russia.

Property in Russia is just conditional control. In Russia, it is no more complicated or difficult to dismiss you as a proprietor than to dismiss you as a manager. It's the Yukos effect . . .

Vladimir Putin's former chief economic adviser, Andrei Illarionov, agrees that the Rosneft London IPO was driven by the Siloviki's need to have 'democratic protection' of their assets; their aim was essentially to 'legalize what was previously stolen'. He says Rosneft and Gazprom are not state-owned companies in the usual sense; they are private companies run for the benefit of a small group (the Siloviki), which simultaneously keeps a tight rein on political

power. Because of the tenuousness of such a situation, they have to look to the West for a legal protection which is not available in Russia.

In his prison treatise 'Property and freedom', Khodorkovsky is scathing about the lengths the 'Kremlin oligarchs' have been prepared to go to in order to protect their allegedly ill-gotten gains:

The destruction of Yukos shows that the unrestrained bureaucrats care nothing for the interests of the state . . . They don't have the slightest respect for the state, which they regard as nothing but a means to further their own ends . . .

That is why the Yukos affair was not a conflict between business and government. It was a politically and commercially motivated attack by one company (represented by state officials) on another company.

In keeping with this logic, the bureaucrats have decided to abolish the concept of separation of powers: because that will make it easier for the bureaucrats to milk the country and divide up the loot, without any regard for the interests and needs of ordinary people. End of story.

In remarks to Russian *Newsweek* that were smuggled out of gaol in 2005, he is even more specific about the identity of those he believes stole his company for their own personal gain:

I am now absolutely convinced that the main reason for the 'Yukos affair' was the desire of a group of four or five individuals to take over a large and successful oil company. Politics in general and state policy in particular was used as an excuse to convince the country's leadership to use the full power of the state to redistribute property, ignoring the law. Similar things had happened in the last decade, but never before had the object of attack been such a large corporation. And never before had it been done by such high-ranking figures.

The personal opprobrium attaching to Putin, Sechin and the Siloviki over the seizure and subsequent sale of Yukos has been considerable. Stanislav Belkovsky says the Kremlin has adopted a policy of neither confirming nor denying allegations about its financial activities. By simply refusing to comment on reports of misconduct, he says, they 'hope to avoid attracting more attention to them'. In my meeting with Vladimir Putin's aide Dmitry Peskov, my inquiries about the President's involvement with the lucrative Gunvor contracts to distribute oil from former Yukos refineries had already been rebuffed. When I asked why the Kremlin had flouted national and international law to seize Yukos, Peskov was once again unbending:

I just would like to make the picture clear. First of all, President Putin never 'grabbed' Yukos away. If you look at all the procedures that were done with Yukos's assets, they were done in strict accordance with the principles of a market economy. So if you just trace the whole story, there were tenders, competitions offered to different

companies; they were purchased by legal identities of this country and money was paid for Yukos. The bankruptcy operation was conducted properly; it was done not as a nationalization process; it was done in accordance with the principles of a market economy.

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The startled accountants

The Kremlin's contention that the takeover of Yukos was done legally and 'in accordance with the principles of a market economy' is an interesting one. It would certainly be disputed by those connected with Yukos and GML who feel the state used trumped-up charges to bankrupt a thriving, solvent business for reasons of politics or of personal greed.

Indicative of the atmosphere in which the affair took place is what happened to Yukos's auditors, PricewaterhouseCoopers (PwC), who had worked with the company since 1995 and certified its annual accounts for the decade that followed.

When the Kremlin announced its investigation into the alleged embezzlement of billions of dollars of Yukos profits, tax evasion and money-laundering, PwC was obviously in a difficult position. Such was the scale of the alleged irregularities and so long had they allegedly been going on that it was inconceivable a professional auditor could have failed to spot them. It seemed that PwC must have been either monstrously negligent in its oversight of the company's financial activities or complicit in the crimes Yukos was accused of committing. Admitting to either of these would be immensely damaging to PwC's reputation.

There was, however, a third possibility — that the offences Yukos was charged with did not actually exist, that they were simply the invention of a vengeful Kremlin, and that PwC had been guilty of neither negligence nor misconduct. Since the general opinion in the Western and independent Russian media was that this latter scenario was most likely the correct one, there was a good chance PwC could survive with its image intact. To do so, it would have to stick by the accuracy and honesty of the annual Yukos accounts it had endorsed between 1995 and 2004.

But there, unfortunately, was the rub. If it stood by its audits, PwC would essentially be saying the Kremlin charges against Yukos were a fabrication. And calling the Kremlin liars is by no means a good policy for a firm that wants to continue its very lucrative activities in the Russian Federation.

The stand-off continued for several months. Behind-the-scenes discussions were clearly going on, but they stayed behind the scenes. And then, on 25 June 2007, PwC abruptly announced that it was 'withdrawing' all its audit reports of OAO Yukos.

The statement issued by PwC hinted very strongly that their auditors had been deliberately deceived by a less-than-honest Yukos management:

As a result of recent information that has come to the attention of ZAO PricewaterhouseCoopers Audit (PwC) in relation to OAO NK Yukos (Yukos), PwC has written to the

management board of Yukos informing them that the PwC audit reports on Yukos for the periods ended 31 December 1995–2004 inclusive should no longer be relied upon or associated with Yukos's financial statements. PwC decided to withdraw its audit opinions for Yukos when it became aware of new information which, had it been known at the time, may have affected Yukos's audit reports. PwC now believes information and representations which was provided to PwC by Yukos's former management may not have been accurate. In addition, PwC's decision to withdraw the reports was influenced by the fact that some former shareholders and management of Yukos are continuing to encourage others to rely on PwC's audit reports as confirmation of the trustworthiness of their company's financial accounting.

The statement was short and lacking in detail, but it was clearly a momentous decision for a major international accountancy firm to renege on its audit of a high-profile company the size of Yukos. Because of the potential damage to PwC's reputation such a move could trigger, there must have been compelling reasons for doing so. I contacted PwC to ask for further explanation, but was told the matter was potentially the subject of judicial action and they could not comment.

I continued with my requests to PwC over the next eighteen months, however, and in February 2009 their Director of European Public Affairs, Michael Davies, returned my call. He explained that the 'new information' which caused PwC to change its mind about Yukos's financial probity had come from the Russian authorities.

'Some of our people in Moscow were interviewed by the Russian Prosecutor's Office. Our staff and partners were there as witnesses in the investigation [of Yukos]. And it was during those interviews that the new information came to light.'

In other words, the Kremlin had given PwC information about Yukos that PwC had not discovered in the decade it had been working with the company. When I suggested this might sound a little surprising, Davies was firm.

'The withdrawal of our audits was not done lightly', he told me. 'We were confident of the new information we received.'

The reaction of the Yukos and GML managers was one of unconcealed anger — in their eyes, PwC's move was simply a surrender to Kremlin blackmail. Yukos's former chief financial officer Bruce Misamore said they had never kept anything back from the auditors: 'It is inconceivable that there is any "new information" that PwC did not have already or had access to, because they had full access to *everything* available to the management of the company.'

Tim Osborne of GML called the decision 'utterly spineless. They are failing to stand up for their client and their principles. One has to assume — and we certainly do assume — that they are bowing to political pressure.'

When I put Misamore's comments to Mike Davies, he was dismissive.

'I am not surprised to hear that Bruce Misamore has denied they withheld information from us', he told me. 'But they did do so.'

Whatever the reasons for PwC's actions, it was unmistakably the case that PwC had indeed been under pressure from the Kremlin. Three months before they issued their statement on Yukos, their offices in Moscow had been raided by the police. The Interior Ministry had said it was considering a possible investigation of PwC's own tax affairs and hinted that the company might be found to have underpaid \$9 million. The same month, a Moscow court condemned PwC for allegedly drawing up two different audit reports on Yukos in 2002 which, the judge suggested, may have been done with the intention of concealing Yukos's tax shelter schemes. Officials of the Finance Ministry began very publicly to speculate that PwC might lose its licence to operate in Russia.

The sudden ratcheting of pressure on PwC was followed by the company's decision to rescind its audits endorsing Yukos's accounts . . . and that, in turn, was followed by a statement from the Justice Ministry that proceedings against PwC had been dropped and an announcement from the Finance Ministry that PwC would not be losing its licence after all.

I asked Michael Davies if this was all coincidence. He said it was 'not unusual' for an accounting firm to withdraw an audit 'if significant disclosures or significant fraud are found' and that significant information was withheld during their audits of Yukos. He said there had been no adverse repercussions for PwC's activities in Russia — they continued to do business with big corporations such as [state-owned] Gazprom and others. Their performance over Yukos, though, does seem to have damaged PwC in the private sector where some clients, including the giant AvtoVaz car firm, have switched their business to other accountants.

In his testimony to the House Financial Services Committee in Washington, Tim Osborne was scathing in his assessment of PwC's integrity:

In today's Russia, the pressures on business to champion the Russian government's interests above all others, is immense and quite real.

PwC had always stood by the accuracy and reliability of Yukos's financial statements. However, beginning in the latter part of 2006, the Russian government initiated a campaign against PwC in order to discredit its work for Yukos . . . This was an attempt by the Russian authorities to intimidate PwC to relent in its defence of Yukos's audits.

Sadly, the Russian authorities were successful. Notwithstanding its unequivocal statements as late as December 2006, PwC withdrew all audit opinions for Yukos.

Subsequently, it appears that PwC has received more favourable treatment in the Russian courts and in its dealings with Russian authorities and state-owned enterprises. Moreover, PwC's license to practice as an auditor in Russia has been renewed.

Osborne maintains that PwC had always had a complete, first-hand knowledge of everything that was going at Yukos, including the tax mitigation schemes that seem to have been the object of the Kremlin's 'new information'. In fact, he says, PwC were actually involved in setting them up.

It was basically an invoicing thing. If you did business in these places [onshore tax havens], you got tax breaks. They were used as a tax-saving arrangement.

These arrangements were designed in conjunction with PricewaterhouseCoopers. They were disclosed in the publicly filed accounts, and they were in line with what every other resource company in Russia was doing.

The Yukos account, for, I think the first year was 2000, had been audited by the [Russian] tax service three times, and given a clean bill of health. Nevertheless, with less than thirty days to go before they went out of time, the tax authorities came in and did another audit, which suddenly threw up some very significant tax bill. I think it was two or three billion. They finally went after them for that over the whole period. The total tax bill was about \$28 billion.

The withdrawal of the PwC audits was a blow for Yukos — they had previously been cited as evidence of the company's adherence to international standards of financial behaviour — and it weakened Khodorkovsky and Lebedev's position as they prepared to defend themselves against the new charges of embezzlement and money-laundering the Kremlin was formulating.

There were some protests against the Russian authorities' treatment of PwC and Yukos. Sandy Vershbow, the US Ambassador to Moscow, said, 'We are concerned about the escalation of legal pressure being exerted on Yukos; the move will send a very negative signal to companies investing in or considering investing in Russia'; and President George W. Bush called on Russia to 'stop terrorizing big business'. But overall, the response was muted. European political leaders were reluctant to confront Moscow, and Western business interests were equally nervous. Some companies were undoubtedly deterred from trading with Russia by the Kremlin's treatment of Yukos, but after a dip in investment following the arrests of 2003 the business world largely reverted to its usual greed-driven stereotype: money poured back into the Russian markets as soon as the fuss died down.

Tim Osborne predicts the West's lack of backbone may be damaging to the West itself:

If you want a civilized system . . . I think we need to continue to bang the table and say 'there should be a level playing field'.

At the end of the day you've got to look at the bigger picture and say 'we need Moscow. If it's going to be our biggest trading partner, or one of our biggest trading partners, it needs to trade with us on the same basis as our other trading partners, which is in compliance with our laws.'

But I don't think the business world is ever going to bang the table; the business world is just in it to make a profit. It's for the politicians to set the standard. I think the British government has quietly been better than most: it's called upon Russia to do the right thing. Bush said he had 'looked into Putin's eyes and saw a man I could trust' — well, he should have got glasses. And the real people that need to stand up are the

Germans, because they're the biggest trading partner; yet they seem singularly willing to sell themselves for a shilling.

In the long run, the world's need for oil is always likely to outweigh moral scruples over Russia's standards of justice or the fate of individuals and companies like Yukos.

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Traitors in the ranks?

When Khodorkovsky's mother Marina was asked in March 2008 how his business partners had reacted to his arrest, her answer was pained and clearly heartfelt: 'You could write a whole Shakespearian drama about their treachery and betrayal!' she replied. 'Those who behaved worst of all were the ones he considered to be his friends. Some of the people who had worked at Yukos offered to help. We found out who our true friends were.'

Marina would not be drawn further on whom she was accusing of treachery and betrayal. After his arrest, Khodorkovsky renounced his interest in GML (and hence of Yukos) which then passed to his long-time friend and partner Leonid Nevzlin. Today, even after the collapse of Yukos, it still represents a very large amount of money, probably over \$1 billion. Tim Osborne says he — and GML — believe it was an unconditional gift, and that Khodorkovsky has no means to recover his interest in GML from Nevzlin if and when he gets out of gaol:

Osborne: No. Khodorkovsky gave up his interest in GML in about April 2005 and it was transferred to Leonid Nevzlin. I think it was because he felt he would get better treated by the Kremlin if he was disassociated from GML, and therefore from Yukos.

I think it was a naïve decision, even if it was believed. And I doubt the Kremlin did believe it, even though it was true. I think that they had it in for Khodorkovsky whether he was associating with GML and Yukos or not.

As far as I am aware, and the trustee is aware, there are no behind-the-scenes arrangements to reconstitute or anything like that.

Sixsmith: But since they are old friends who worked together for so many years, might we surmise that when Khodorkovsky comes out of gaol, Nevzlin would return his money?

Osborne: I really have no idea.

In fact, since he went to gaol Khodorkovsky's relations with Nevzlin have not always been smooth. They seem to have disagreed over how to negotiate with the Kremlin about the tax demands, and they reportedly differed over the proposal that Roman Abramovich should take over the newly created Yukos–Sibneft. As we saw, Alexander Temerko believes Nevzlin blocked a possible deal with Abramovich because he thought it was a trap, and that Khodorkovsky's interests suffered as a result. I asked Temerko if this could have been a cause of conflict between the two former partners. He says there was definitely a difference of opinion:

Temerko: I am sure he [Nevzlin] was in error when it came to Abramovich. There was no trap there. Those guys [Abramovich and his team] should have been given the management of the company at that time. Then the situation would be different from now — not as difficult as it is now.

Sixsmith: And while Khodorkovsky was kept imprisoned, were you able to communicate with him about this? Did you know what his opinion was?

Temerko: How could we not know that? How else could that be? He is the head and owner of the company. Of course, he knew it all.

Sixsmith: So, Khodorkovsky agreed with your opinion that it should have been sold to Abramovich?

Temerko: Not sold, just given to him to manage.

Sixsmith: That management should be given over to him?

Temerko: Of course he agreed with me on that. Of course he agreed. But he was in prison at that time. What could he do?

According to Temerko, Nevzlin objected to the deal and Khodorkovsky stayed in gaol. This is not to say, of course, that Khodorkovsky believed Nevzlin failed him; but in my talks with some of Khodorkovsky's former partners I have sensed some mixed feelings, verging on resentment. As we will see, Mikhail Brudno in particular speaks of disagreements.

While the Yukos drama may have placed strains on the relations between Khodorkovsky, Nevzlin and Brudno, it caused much more acrimonious feelings towards two other members of the 'Magnificent Seven' GML owners. Vasily Shakhnovsky and Alexei Golubovich were the last to join Khodorkovsky's band of entrepreneurs and were always seemingly regarded with some suspicion by those who were there before them.

As the net closed over the Yukos management in 2003, Nevzlin, Brudno, Dubov, Shakhnovsky and Golubovich had had to look to their own safety: Nevzlin, Brudno and Dubov had fled to Israel, and Golubovich to London.

Shakhnovsky, however, elected to stay — at least temporarily — in Russia.

As we have seen, Khodorkovsky on the eve of his own arrest was attempting to secure a parliamentary post for Shakhnovsky that would offer him immunity from prosecution. (In an interview smuggled out of prison, Khodorkovsky would later claim Putin had been misled into believing he was seeking the parliamentary post for himself, and that that is the reason he was so abruptly arrested in Novosibirsk.) Khodorkovsky's bid to protect Shakhnovsky failed, but Shakhnovsky did not flee abroad. Like Khodorkovsky and Lebedev, he was charged with tax evasion, but unlike his two colleagues he was not put in gaol.

On 5 February 2004, just three months after Khodorkovsky was incarcerated, Shakhnovsky was found guilty and ordered to pay \$1.78 million in back taxes; but he was set free with a one-year suspended sentence, ‘based on the change in situation around the case and the presence of extenuating circumstances’.

The leniency enjoyed by Shakhnovsky, in contrast to the harsh treatment of Khodorkovsky and Lebedev, prompted suspicions that he might have agreed to cooperate with the Prosecutor’s Office:

Temerko: Shakhnovsky got off so easily — he was summoned to the Prosecutor’s Office, he agreed to testify, he cooperated with them, he admitted . . .

Sixsmith: Are you certain that he was helping them?

Temerko: Well, the fact that he did not refer to article 51; that he did not refuse . . . He accepted the verdict and he decided not to appeal to the Supreme Court. What can be concluded then? What was that?

He was on their side, helping the investigation to move forward. Then he left for Switzerland where he is still living.

But the most important thing is that he did not speak out or say a single word. He was meant to be one of Yukos’s political ideologists. This man was — one would assume — a democrat by conviction, but his position from the very start was to say, ‘This is not my war’.

He implicated and involved practically everyone in this war. [Before Khodorkovsky’s arrest] he was on television, in the media. He would say that he, together with Khodorkovsky, was one of the leaders of Open Russia. He would say there must be a parliamentary republic, that dictatorship was being established in the country, and so on. But after Khodorkovsky’s arrest, he behaved like a *provocateur*.

He began something, and then he behaved in a way that was not worthy of a real man.

Shakhnovsky is the only man who both got all his money back and called himself Khodorkovsky’s closest friend. He would sit there in his office, even when he had no business to be at Khodorkovsky’s office. He would cry out at every corner that he supported Yukos’s policy, but when Khodorkovsky got arrested, he got so scared that . . . I personally have seen many things in the course of my life, but I had never before seen a man who was so scared. It seemed to scare the shit out of him, pardon my language.

He behaved in a way the last coward would. He proved himself to be a moral and physical coward. And, what is more, he was a coward who was trying to justify his actions. Let’s just forget about that Shakhnovsky! God will judge him. A Judas, that’s what he is; a Judas.

The allegations against Shakhnovsky remain unsubstantiated and he has not been shunned by the former partners: Mikhail Brudno in particular remains on good terms with him. Unfortunately, the same cannot be said for Alexei Golubovich.

Golubovich had resigned from his active management role at Yukos in 2001. He moved to England in 2003, but he retained his interest in GML. After the arrests of Lebedev and Khodorkovsky, his behaviour began to arouse suspicions among the others. In contrast to the way it was treating them, the Kremlin seemed to be going suspiciously easy on Golubovich.

He was eventually arrested on a trip to Rome in May 2006 on a warrant from Moscow alleging he was involved in the Apatit case and corporate tax evasion through the illegal transfer of Yukos funds into offshore tax havens. The Italian courts examined the case for extradition, but turned down the Russian request to send him back.

Remarkably, he soon afterwards agreed to return voluntarily to Russia, a country that had been demanding his imprisonment on serious criminal charges. Even more remarkably, he was not arrested when he arrived in Moscow in January 2007.

Within days it became clear Golubovich had cut a deal with the Russian authorities. It seems he had held a secret meeting in London with representatives of the Russian Prosecutor's Office who had agreed conditions for his return to Moscow. The Prosecutor offered to drop the Apatit charges against him and he promised in return to appear as a witness in the planned second trial of Khodorkovsky and Lebedev.

Safely back in Moscow, Golubovich was quoted as saying he had broken with his former Yukos colleagues and that he now suspected they had tried to poison him and his wife when things turned sour between them. He suggested Leonid Nevzlin had been the principal instigator of the alleged poisoning.

His accusations, in early 2007, came at a convenient moment for the Kremlin: Moscow was being widely accused of involvement in the poisoning of the renegade KGB man Alexander Litvinenko and was trying to turn the tables by claiming, somewhat improbably, that Leonid Nevzlin had carried out that murder. So Golubovich's tales of suspected poisoning were useful grist to the Kremlin's rumour mill.

Shortly afterwards, Golubovich reported that his London office had been burgled and 'many boxes of evidence that could incriminate Yukos and its executives' had been stolen. The alleged burglary seemed an oddly convenient means of explaining how apparently incriminating evidence that only Golubovich had access to could suddenly end up in the hands of the Russian state prosecutor. Within weeks, it was announced that Golubovich would be a principal witness in the series of new prosecutions the state had opened against the already imprisoned Khodorkovsky and Lebedev.

Presumably as part of his deal, Golubovich gave a coruscating interview on national television and in the official *Izvestiya* newspaper in which he 'revealed' that Khodorkovsky and his former friends were indeed guilty of the of tax evasion and fraud charges against them.

'Instead of developing the business, the [Yukos] management devised complicated tax schemes, moving business from one region to another on

paper, so as to pay taxes at lower local rates, and schemes based on differential pricing . . .’

Golubovich said he had become locked in a commercial dispute with Nevzlin and his other former partners and shortly afterwards a bomb had exploded at his house.

‘As for who was behind the attack, no one else apart from Menatep and Yukos came to mind’, he said in the interview. ‘It was clear the explosion was meant as a demonstration.’

His own business ventures, he claimed, had been sabotaged by the Yukos security service headed by Leonid Nevzlin.

Golubovich was a former physicist and had worked with Khodorkovsky at Menatep in the early 1990s. He had later become Yukos’s head of strategic planning but fell out with his fellow executives in 2001. He says the dispute arose because the others tried to cheat him out of his share of the company:

Khodorkovsky grabbed nearly 60 per cent for himself, and then doled out 7 per cent each to several employees, including Nevzlin, Lebedev, Brudno, Dubov and me. Shakhnovsky was added to the group later. We each got . . . a share in an offshore company. By putting your signature to paper, you became the owner of a stake in a giant company with a vast property portfolio.

I was shocked how simple and routine the procedure was. But none of us saw our shares. Personally, I have never seen the Menatep shares assigned to me.

Anyway, it seems someone didn’t like the way the stakes were divided up. I think Nevzlin didn’t like it, because when the list of Menatep shareholders first appeared in the public domain in Russia, my name had been taken off the list. There was a cleverly planned campaign against me in the media, saying I had been illegally trading in shares, or I hadn’t paid my taxes, or I had stolen \$300 million or even \$300 billion. It was all a lie, of course, but it hit the headlines . . . I think Nevzlin must have been behind it all.

Whatever the truth behind the internecine warfare inside the Yukos management, it resulted in bitter and lasting resentments. Golubovich’s willingness to turn state’s evidence against his former comrades in return for a promise of immunity from the Kremlin left them feeling exposed and angry. Mikhail Brudno says they always had misgivings about Golubovich:

He was for some time a partner of ours. But he was always . . . he was never really and truly one of us. Where we always had a common interest, it was always a common goal and we all had it. Nobody wavered and hesitated, or turned right or left. But he was always on his own. And it ended in betrayal. He betrayed Khodorkovsky; he sold him out. Yes, he sold him out.

Alexander Temerko is equally critical of Golubovich’s betrayal, but says he at least stabbed them in the front, not the back:

Undoubtedly, Golubovich revealed himself as a creep and a bastard. But he at least was doing all those things openly. He said, 'I am waging war against you. You cheated me, you lost the company, you lost my money. Give me my money back.'

I can at least understand what Golubovich was demanding. That conflict was purely a conflict about money. It was all about money. He said, 'I want my money back. Give me back my money; repay me for my shares at what the market value would be worth before the collapse and elimination of Yukos. And if you do not give me my money back, I will begin a war against you.'

His conflict with us was at least plain to see and understand.

Clearly he went to all the Prosecutor's Offices there and he went further. Russian intelligence services then used him for their own purposes and interests. He is now living comfortably in Moscow and he is still on television, talking about things . . . But at least in the case of Golubovich, it was clear. He was saying, 'It is my money, and I will fight to get it back.'

It seems Golubovich did get his money back. The trust mechanisms set up in Guernsey by Khodorkovsky allowed the other shareholders an option to buy out his stake of the business. One of those involved in the battle with Golubovich said they were willing to pay the price to get him out of the company:

We had a big battle with Golubovich. He suddenly ended up in Moscow and it turned out he had done some deal. That triggered the protection mechanisms that had been put in place way back in 2003. We said, 'Right, we don't want him: there should not be a shareholder in the company who is hostile to the company'. We exercised the option and bought out his shares.

That created a lot of litigation, which finally ended up with him agreeing that his shares would be bought out. So it is going to be extremely interesting to see whether he is going to stand up in court in the new proceedings and give evidence against GML . . .

Hope

As long as Vladimir Putin was President, there seemed little chance that Khodorkovsky would be released. So personal was their mutual hatred, so deep and acrimonious the quarrel that led to war between them, that forgiving the man he sent to gaol would have humiliated the President beyond endurance. The veteran political commentator Sergei Dorenko laughed when I asked if Putin could ever agree to pardoning Khodorkovsky:

Absolutely no. Putin could never let Khodorkovsky out. He could never agree to having him on the street here in Moscow. Think of the two men meeting in the street: there would be an explosion, like matter and anti-matter! Paf! It would be impossible.

Even Khodorkovsky's most fervent supporters held out little hope of seeing him free in the short term. The formula that seemed to have been agreed between his lawyers, his business partners and his friends was that Misha would 'not be released until the power [*vlast*] changes in Russia'. His mother used that formula, as did all those who spoke on his behalf.

What they all knew, of course, was that Vladimir Putin would not be President forever. Russia's Constitution specifies that no one may serve more than two consecutive presidential terms, and for Putin that meant stepping down in March 2008. But, in the Russian way of things, a new President was far from a guarantee of change. Speaking to me a couple of months before the presidential elections, Mikhail Brudno argued that 'merely changing the President would not change the power [*vlast*]':

There will be only an imitation of an election. It makes no difference. Really Putin will remain in power. There will be no change in the people in authority. It makes no difference if they choose to imitate the election process and pretend they have a new President; the important thing is that there will be no change in power. Nothing will change for Khodorkovsky; nothing will change for the country. I do not care really about what will or will not change for the country. For me, the terrible thing is that nothing will change for Khodorkovsky or for Lebedev and all our other people. I do not think they have any chance.

Leonid Nevzlin echoed the same sentiments. Even with a new President in office, he told me, Putin's continuing influence behind the scenes would make compromise virtually impossible:

You see, if this power lasts — and let's assume that grey man Putin goes on ruling Russia

for as long as he likes — what hope is there of Khodorkovsky being released? There'll be no release and no rehabilitation. The worst thing for those who are in prison is the hopelessness. Because Khodorkovsky will not be let out under this regime . . .

It's only if there are genuine political changes, if there are real political changes, that I think we could come to an agreement.

Because money doesn't bring happiness. Life is more important; release from prison and the chance to move about the world freely . . . which I myself don't have right now, because of Interpol and so on. In my case it hurts, too, just to a lesser degree . . .

The pessimism in the Yukos camp seemed to be borne out when in March 2008 Vladimir Putin ceded the presidential throne to his own protégé, Dmitry Medvedev, and moved himself seamlessly into the post of Prime Minister. Within weeks it was clear that a dual power system had been installed in Russia — the media called it a Presidential Prime Ministerial tandem — and that the senior partner at the pedals was not Dmitry Medvedev. Opinion polls showed that 90 per cent of Russians believed Putin was still in charge.

Even more worryingly for the long-term prospects of the Yukos men and women in Russia's prisons, the Kremlin was quick to confirm that while the Constitution may rule out a third *consecutive* term for the former President, there was nothing to stop him coming back in 2012.

The discouraging signals from the top did not mean an end to GML's legal challenges against the Kremlin, however.

It scored an initial success in April 2009, when a Dutch court ordered Rosneft to pay 13 billion roubles to the Yukos subsidiary, Yukos Capital. The award, which was worth around \$390 million, came in response to a claim that Yukos Capital had loaned the money to Yuganskneftegaz and that Rosneft had failed to refund the loan when it bought Yuganskneftegaz at auction. The Amsterdam Court of Appeal ruled that Rosneft was liable and that Yukos Capital could enforce the judgement by seizing Rosneft's assets in Holland. The amount of the claim was comparatively small (around 1 per cent of GML's total suit against the Kremlin), but the decision was a useful precedent for the claimants. Rosneft announced immediately that it would contest the Dutch court's decision.

In a move that smacked more of PR than substance, lawyers for Khodorkovsky and Lebedev waylaid the Russian Finance Minister Alexei Kudrin when he visited Washington and served him with a subpoena to appear as a witness in the men's trial in Moscow. The summons, backed by the US District of Columbia Federal Court, won headlines in Russia and in the West but did not persuade the Minister to testify in court.

At the same time Anton Drel continued to plead the case of the imprisoned Yukos bosses at the European Court of Human Rights (ECHR) in Strasbourg and won a preliminary victory when the court criticized the way Russia had treated Platon Lebedev. He says victory at the next stage — an ECHR ruling condemning Russia for imprisoning Khodorkovsky — would step up the pressure on Moscow to release them:

Drel: It doesn't mean they would be immediately released right after a Strasbourg resolution. But according to Russian criminal legislation, the resolution from Strasbourg is new evidence. That is, circumstances which have become known only now.

The Russian Supreme Court cannot simply ignore a resolution from Strasbourg and decide not to review the case; it is stated in the law. Strasbourg means the case has to be reviewed. If the decision of the Strasbourg court states that the case should be reviewed, then it has to be.

Russia is very proud that it has always followed the resolutions of the European Court. It has always complied with such resolutions.

It can take a long time, but then what is a long time? Khodorkovsky and Lebedev have been in prison since 2003, and they are there until 2011 . . . plus the new charges [that the Kremlin is bringing against them]: how much longer could it be? Ten or fifteen [years]? The law stipulates a maximum of thirty years. Well, it won't be thirty years. My feeling is that Khodorkovsky could [be in gaol] up to 2020.

Before then, we could get something out of Strasbourg. It is a long time unless something changes in Russia.

Sixsmith: Unless what changes?

Drel: Well, since Khodorkovsky's case is all about politics, then logically there needs to be a political decision. That's the way it happens in Russia, as you know. They suddenly say, 'Everything was wrong. We made a mistake.' But for that to happen today, it would need a political resolution. For Khodorkovsky and Lebedev to be released immediately, simply a legal resolution would not be enough.

In May 2009, the European Parliament issued a statement condemning the treatment of Khodorkovsky and Lebedev, whom it described as political prisoners, and the 'ongoing failure of the Office of the Russian Prosecutor to respect [their] right to a fair trial in accordance with international standards'.

Amnesty International in its annual Human Rights Report appealed to Russia to show more respect for the rule of law, urging Dmitry Medvedev to ensure 'that Russian courts comply with international standards of justice in all cases, including that of Mikhail Khodorkovsky and Platon Lebedev'.

The words of support were helpful, but the Yukos lawyers are realists. They knew that if Moscow has a political motive for keeping their clients in gaol, then they will stay in gaol. Their strategy has been to keep up the legal moves against the Kremlin and to try to keep the case in the public eye.

In mid 2009, the European Court of Human Rights made an initial pronouncement on the case brought on behalf of Mikhail Khodorkovsky. By a unanimous decision, the panel of judges ruled that the suit, which alleges his arrest was politically motivated and illegal, was admissible and should be considered by the Court.

When the ECHR began to weigh the substance of the complaint, it received written evidence from the former Russian Prime Minister Mikhail Kasyanov.

Kasyanov stated in an affidavit that Vladimir Putin had told him the arrests of Khodorkovsky and Lebedev were indeed politically motivated. 'Putin told me Khodorkovsky was financing the Communist Party without his agreement', Kasyanov wrote of a private conversation in the Kremlin in July 2003, three months before the President ordered the oligarch's detention. According to Kasyanov, Putin said Khodorkovsky had 'crossed a line' and this was the reason he and Yukos were being pursued.

Kasyanov's evidence stated that the tax optimization schemes used by Yukos were legal and there was therefore no legal justification for the attack on the company. It was, rather, Putin's fear that Khodorkovsky was building an effective political opposition in Russia that led to his downfall.

Perhaps sensing that the former Prime Minister's evidence might swing the case against it, the Kremlin hit back with a warning from Dmitry Peskov that the ECHR's decision should be 'be governed by the rulings of the Russian courts rather than by the "false statements" of Mikhail Kasyanov'.

The vehemence of the response from Putin's adviser confirmed the impression that Putin remained personally committed to keeping Khodorkovsky behind bars. There were, though, wider national interests at stake. With Russia pressing for admission to Western-dominated organizations such as the World Trade Organization (WTO) and for full member status of the G-7/G-8 group of industrialized countries, Moscow was under pressure to prove its credentials as a civilized, law-abiding nation. Few Western leaders openly linked Russia's WTO admission to the Yukos case, but most agreed that Dmitry Medvedev would increase his democratic credentials by letting Khodorkovsky go free. Tim Osborne, who runs Khodorkovsky's erstwhile flagship, GML, said there was pressure on the Kremlin to draw a line under the Yukos affair:

Yes. I think great pressure all round, because that will get the Western governments up again. They [the Russians] will know it's not going to go away. This will be something that the government in Moscow, which may well be back into wanting WTO membership and those sorts of things, is not going to want hanging over them. They know, every time they turn up for a commercial negotiation, we — GML — are going to have somebody there saying 'you can't trust these boys'.

Emmanuel Gaillard suggested the Russians' desire for acceptance in the club of Western nations may eventually prompt them to concede GML's demands for compensation under the Energy Charter Treaty, although he acknowledged it could be a lengthy process:

What I see is that Russia wants to be part of new clubs, they want to join new organizations. They are extremely proud of being a member of the G-8 — it is unclear if it is still G-7 or G-8, some people say G-7 + 1, and clearly the Russians want it to be G-8. The Russians were so proud to be part of the club of the democratic and developed countries. Perhaps they are neither, but they want to be. They want to join the OECD,

they want to join the WTO, or at least there are negotiations. But they want to have their cake and eat it in terms of the ECT, because they still want to be able to say, 'We do apply it provisionally', only in arbitration they say, 'Well, it is not really binding . . . therefore we apply it when want to, and we do not want to for you.' We say it is an untenable position.

There were indications before and after the 2008 elections that the Kremlin was wavering in its intentions towards Khodorkovsky and GML. Fluctuating and at times conflicting signals suggested a struggle between rival interests or rival factions in the Russian leadership. These were seen most clearly in the Kremlin's on-off attitude to the new charges it had been promising against Khodorkovsky and Lebedev, suggesting the Yukos saga's continuing role as a litmus test for Russia's political course.

On 5 February 2007, the Prosecutor's Office announced it had evidence that the pair were guilty of massive embezzlement and money-laundering during their time at Yukos. The prospect of new charges, which could add more than twenty years to their sentences, had the effect of ruling out any possibility of parole for the prisoners (they would otherwise have been eligible for it when they had completed half their sentence later that year).

But while the prosecutor's announcement ensured Khodorkovsky and Lebedev would stay in gaol until the end of their initial sentences in 2011, it did not mean the new charges would necessarily be brought against them. The decision to hold a second trial still had to be taken and, as with all such decisions in Russia, it would inevitably be taken in the Kremlin.

A breakthrough seemed to have come at the beginning of 2008, when the Russian prosecutor announced that the proceedings had been postponed. Instead of opening the formal investigation of the embezzlement charges in February 2008, the start date was put back to May. Since presidential elections were due on 2 March, it seemed the Khodorkovsky decision was being passed on to the new man in the Kremlin.

Dmitry Medvedev, a lawyer by training and unencumbered by Putin's KGB background and personal animus towards Khodorkovsky, was on record as saying he wanted to do away with the 'legal nihilism' that had grown up in Russia, the so-called 'telephone justice' where judges' decisions were dictated to them in calls from the Kremlin. Since the Khodorkovsky case was probably the most high-profile example of legal nihilism in Russia at the time, it seemed a positive signal.

Medvedev got his chance to engage with the issue just days after he was elected.

The German Chancellor Angela Merkel went to Moscow on 8 March 2008 and — in sharp contrast to her predecessor — raised the question of a pardon for the Yukos executives forcefully in private conversations. Both Putin and Medvedev were involved in the talks and Merkel told them she planned to refer to the issue publicly at their joint news conference after the meeting. The

three politicians agreed they would plant a question with a German journalist in the press corps.

When the German correspondent asked if Khodorkovsky could be pardoned under the new President, Putin was careful not to rule out the possibility.

'In line with the law, this procedure is in the competence of the head of state,' he said, turning towards Medvedev. 'If we assume that the procedure required by law is observed, then the question of pardoning is in the competence of the head of state, the President of the Russian Federation.'

In a pre-agreed response, Merkel added, 'We would really welcome such a move.'

It was the first time the question of a pardon had been discussed so openly and the tone of the exchange was distinctly encouraging.

After the press conference, the commentator Sergei Dorenko told me that Medvedev was almost certainly attracted to the idea of releasing Khodorkovsky because it could serve as a dramatic grand gesture to set the tone for his presidency. It would ease Russia's relations with the West; it would convince Western opinion that the new man in the Kremlin was a liberal (whether that is true or not); and it would allow Medvedev to show he is his own man, no longer dependent on his mentor Putin (again, whether that is true or not). It would also give substance to Medvedev's claim that he wants to put an end to 'legal nihilism'.

Hope abandoned

There was some euphoria following the Merkel press conference and observers were quick to recall that Medvedev's first act when he became Kremlin chief of staff in 2003 had been to express his concern over the way the Prosecutor's Office was persecuting the Yukos bosses.

For a few months, the signs looked good.

Then, on 30 June 2008, things changed dramatically. An announcement appeared on the official website of the Russian Prosecutor's Office that the new charges were indeed going to be brought against Khodorkovsky and Lebedev, and that the two men had already been transferred to the Pre-trial Detention Facility No 1 (IZ-75/1) in Chita.

The Yukos lawyers saw the hand of Putin in the move and the unwillingness — or inability — of President Medvedev to oppose his predecessor and mentor.

For the next nine months, the prisoners were interrogated by investigators from the Russian Prosecutor's Office as the details of the new charges were worked out. By the time the trial opened, on 31 March 2009, it was clear that the scale of the alleged offences was massive: Khodorkovsky and Lebedev stood accused of embezzling *all* the oil and *all* the profits produced by Yukos in the period 1998–2003 (around \$25.3 billion), and of money-laundering to the tune of around \$21.4 billion. The charges carried a potential gaol sentence of up to twenty-two years.

On the first day of his trial in the Khamovniki District court in Moscow, Khodorkovsky's lawyers dismissed the allegations as nonsensical. How, they asked, could their client have stolen *the entire output* of a major company like Yukos — a total of hundreds of millions of tonnes of oil — without anyone at the time having noticed that he was doing it?

In his opening statement Khodorkovsky mocked the absurdity of the prosecution's case:

They have charged me — honestly, this is the truth — with the physical seizure, in secret, of 350 million tonnes of oil, as if they were talking about a pot of paint pilfered by a supervisor from a warehouse, or about a piece of sausage a sales clerk has hidden in his pocket and carried out of a shop. One can imagine the embezzlement of a barrel, a vat even . . . but these great detectives are talking about 350 million tonnes of oil, for which you would need a railroad train so long it would encircle the Earth three times . . . Yukos never reported any oil missing and it paid \$45 billion in taxes for the period in question [1998–2003]. So if I had stolen all the oil, what was Yukos paying taxes on?

Garry Kasparov, the former world chess champion turned opposition politician, attended the trial and expressed his incredulity at the cynicism of the proceedings:

Some of Mr Putin's opponents cannot be eliminated simply by rigging an election. Terrified by the scheduled 2011 release of this clearly unbroken man, the Putin regime has decided to extend Mr Khodorkovsky's sentence. The new charges accuse Yukos of stealing *all the oil it ever produced*. The prosecution has no answer to Mr Khodorkovsky's question why, if Yukos was a criminal organization, its properties weren't seized and investigated instead of being quickly auctioned off to Mr Putin's allies? Knowing full well the court will deliver whatever verdict is demanded by the Kremlin, the prosecution must nevertheless read its lines in the play. And it does resemble a scripted drama, as the judge has precluded the defence from challenging documents presented by the prosecution during the trial.

Kasparov believed Putin's personal animus would prevent Khodorkovsky from being acquitted — it would simply be too big a blow to his pride to permit the release of a man he had staked his reputation on destroying. The only hope, he suggested, would be if Dmitry Medvedev had the desire and the ability to throw off the tutelage of his former mentor and reach an independent decision on the Yukos affair:

With the steep drop in energy prices and the Russian economy in freefall, the need to find a scapegoat means a clash is likely. There are optimistic rumours in the West of a potential rift between Messrs Medvedev and Putin. But it will not be because the two men differ significantly in matters of morality and power. We have seen enough to recognize that they are both enemies of democracy, open competition and free expression.

Khodorkovsky, though, seemed keen to keep his options open with the new President. Early on in the trial, he quoted Medvedev's words about law and corruption and the need for an end to legal nihilism. 'I respect Dmitry Medvedev as Russia's legitimate president', he said. 'Although his political views are not completely clear to me, he is certainly not the one who plundered Yukos and he has nothing to fear from Platon Lebedev or myself.'

Khodorkovsky set out his case in answer to questions posed to him by his defence lawyers. Asked if he had adopted tax minimisation schemes while running Yukos, he replied, 'Yes, of course I did. Like any company boss I did everything possible to reduce our tax burden, within the limits of the law. Otherwise we would have been at a competitive disadvantage . . . Rosneft, Sibneft, Gazpromneft and all the others took the same measures that we did, and if you look at the comparative levels of tax we all paid, it was virtually identical, within 2 per cent of each other . . . From a legal viewpoint, the charges I am facing are almost wilfully absurd. The work of my prosecutors depicts events of a crime that never happened.'

When his lawyers asked him, 'Did you steal any of the money?' Khodorkovsky replied indignantly, 'No, never! I was perfectly capable of earning money; to go stealing it would have been a stupid strategy. The way that owners of big companies make money is by growing their share price, and stealing just reduces the share price; it brings little extra benefit and very big problems.' In what was clearly a calculated afterthought, he added, 'But if they do find me and Platon Lebedev guilty of stealing all Yukos's oil, then by law they'll have to return all the "stolen" property to the shareholders who were "robbed". That comes to about \$40 billion, maybe more. I'm pretty doubtful that they'll return any of it, though . . . Substantial sums of money that belonged to the company have since been passed from one hand to another in a very secretive way. The new owners of that money are worried: they have tried in all possible ways to protect themselves and to hide behind their so called political interests. These are the people who control the political agenda in Russia, to the detriment of the country.'

Asked if he believed in the possibility of a fair trial in Russia, Khodorkovsky shrugged, 'It's not in the courtroom that my fate will be decided. Everyone knows that. There is no doubt that the whole Yukos affair has been politically motivated from the start . . . to undermine support for an independent opposition. If the courts were independent, my trial would have been cancelled before it started. But Russia has no independent courts!'

The decision to begin the trial two days before Dmitry Medvedev was due to meet Barack Obama at the G-20 gathering of industrialized countries in London was a curious one. The inevitable publicity the proceedings generated meant the US President would be under pressure to raise the issue in their meeting, making for an uncomfortable ride for Mr Medvedev. Kremlinologists were quick to suspect the hand of Vladimir Putin at work: perhaps fearing his successor was in danger of 'going soft' on Khodorkovsky, the ex-President had found a way of putting him on the spot and forcing him to defend the trial.

In his initial comments in London, Mr Medvedev was decidedly non-committal: he noticeably failed to repeat his call for an end to 'legal nihilism'. The independent Russian media was not slow to spot the portents of a looming clash between the country's President and Prime Minister. Recent signs had been that the 'power tandem' was becoming distinctly less harmonious since the onset of the global financial crisis and that the Khodorkovsky case would be a bone of fierce contention between Putin's so-called 'Party of Blood' (insisting on the unrelenting persecution of the man who dared to challenge and insult him) and Medvedev's 'Party of Cash' (whose instinct is to go easy on Khodorkovsky in the hope of encouraging the West to resume substantial investment in Russia). In the event, it seems Barack Obama made little or no effort to raise the Yukos affair with his Russian counterpart.

In the first weeks of the trial, Khodorkovsky's lawyers filed a motion to have all the charges dismissed on the grounds that they did not make sense and that documents supporting the prosecution's case were so riddled with

arithmetical mistakes that they were less than worthless. Not surprisingly, the defence motion was dismissed and the judge subsequently ordered the audio and video feed of proceedings to the court's press room to be cut.

Twenty-four hours later, Lev Ponomarev, the 67-year-old father of one of Khodorkovsky's defence lawyers, was beaten up so badly by three burly strangers who accosted him in the stairwell of his apartment block that he was in a coma for several days.

At the outset, the trial was scheduled to last between nine months and a year, but it soon became clear that the prosecution was doing its utmost to spin out the proceedings, insisting on reading verbatim every word of the 188 volumes of written evidence it had submitted to the court. Opposition commentators suggested the tactic was a deliberate stalling device because the Kremlin was in a quandary and needed more time to make up its mind on the decision the judges should reach.

While it might have been tempting for Medvedev to let Khodorkovsky go — doing so would draw a line under the Yukos affair and bring him respect abroad — there were always going to be considerable obstacles in his way. Vladimir Putin was evidently opposed to such a move and those in the Kremlin who benefited from the destruction of Yukos had a vital interest in keeping him in gaol. Having begun the second trial, it appeared unlikely the Kremlin would permit a 'not guilty' verdict: over 90 per cent of criminal cases in Russia end in conviction and it would be a serious loss of face for this one to buck the trend.

Medvedev's remaining option was to offer Khodorkovsky a pardon. The existing procedure for a presidential pardon requires a potential beneficiary to admit his or her guilt and file a request. When he was asked during the visit of Barack Obama to Moscow in July 2009 if he would answer such a request in the affirmative, Medvedev was noncommittal:

Any such procedure has to be carried out in accordance with the rules of our country. In other words, a person must appeal to the President, plead guilty to having committed a crime and seek the appropriate resolution. So at this point there is nothing to discuss. Khodorkovsky and some other businessmen were convicted by Russian courts. This was not a political event. The decision of the judicial authorities has to be respected. All procedures involving Khodorkovsky and other business people tried in our courts must be carried out in full accordance with Russian criminal law. That is my firm conviction.

Khodorkovsky, though, continued to protest his innocence and one of his lawyers seemed to reiterate that he would never admit any guilt. 'Mikhail Khodorkovsky's position is that he did not commit any crimes for which he could be pardoned. If he asks for a pardon, he loses the right to contest the case against him.' My own understanding was that Khodorkovsky had staked so much on being vindicated in what he had stood up for — had made himself,

his friends and his family suffer so much for his convictions — that it would be very hard for him to announce he was wrong after all.

Another potential stumbling block was that Medvedev in his time as Deputy Prime Minister was closely involved in the financial wheeling and dealing that allowed the sale of Yuganskneftegaz to Rosneft. He had also helped Igor Sechin's Rosneft to keep the proceeds from its flotation on the London stock exchange, rather than passing them on to the state. As President, he may have felt he was too vulnerable as a former participant in the dismantling of Yukos to pardon the man who was its principal victim. Sergei Dorenko, who has good connections and a good nose for what is happening in the Kremlin, said he was convinced Medvedev wanted to put an end to the Khodorkovsky story, but needed to bring the Putin camp on board before doing so:

Dorenko: I am almost sure that Medvedev wants to take Khodorkovsky out of prison, but I do not think it will be in the first year or even in the first term of his power. He agreed on a package of things with Putin, and Khodorkovsky is part of the package. Medvedev has agreed on the conservation of a good economic, bureaucratic and political position for the main personages of Putin's team. And Khodorkovsky in gaol is part of the package.

Sixsmith: So Medvedev has agreed that package with Putin?

Dorenko: I am sure, because nobody would deal with Medvedev if he did not agree. He has to agree on the package, and Khodorkovsky is part of the package.

I heard indirectly from Khodorkovsky's own lawyers and advisers that he would be willing to negotiate the terms of his release with Medvedev. So repeatedly had Khodorkovsky insisted that he would never leave Russia and go into exile, that the Kremlin viewed it as a barrier to releasing him. Now, though, I learned from reliable sources that Khodorkovsky was finally willing to accept permanent exile as a condition of being freed. What he continued to insist on, however, was the simultaneous release of his gaoled friends and colleagues. In private conversations, he told his lawyers that he could never 'honourably' leave gaol until Platon Lebedev, and the other Yukos prisoners were also freed. He had found Orthodox Christianity in gaol, and this sense of responsibility for those who suffered as a result of his actions runs through his prison treatises, from 'Property and freedom' onwards:

Pressure [has been] put on the managers and staff of the company, whose only fault was that they used to work under the direction of Khodorkovsky . . . Hundreds of people have been questioned, and completely implausible charges have been brought against many of them. Some people, including women, are being kept in prison. Why?

Of those who suffered as a result of Mikhail Khodorkovsky's feud with

power, Svetlana Bakhmina, remained in gaol and saw successive applications for clemency turned down. In September 2008 she made a personal appeal to Dmitry Medvedev. Under Russian law she was eligible for parole because she had served more than half her sentence, and her letter to the President reminded him that as a young mother with dependent children she should be a priority case for release. It met with the same negative response as her previous appeals and her lawyers reported she had been told by the prison authorities that she would not be released until she agreed to testify against her former bosses. For more than three years, Bakhmina had refused to do so. Then, in April 2009, the Russian authorities announced she was being freed. No reason was given for the granting of clemency and commentators were divided: Sergei Mitrokhin, head of the liberal Yabloko Party, welcomed it as a 'political decision' that could be 'one of the signals given by the President to society about some sort of "humanization" in political life'. But Bakhmina's lawyer, Semyon Aria, cautioned against over-optimism: 'It's obvious that they had to do something about the Bakhmina case because it had reached a stage where keeping her in gaol was just outrageously cruel. The ruling should not be seen in any way as an indicator of a change in the authorities' attitude towards the Yukos case, because they are still pressing ahead with the charges against Khodorkovsky. It should certainly not be seen as an indication of any wider changes.' And the veteran human rights activist Lev Ponomarev, whose daughter was serving as a lawyer on Khodorkovsky's defence team, suggested the authorities may have forced Bakhmina to agree to testify against him: 'It is obvious that [she] would only have agreed to withdraw her pardon request under strong pressure from the system. It bore witness to the bared teeth of the regime, and a most brutal regime at that. We don't yet know if the system has finally released her from its grasp. We don't yet know what role they are planning for her in the trial of Khodorkovsky and Lebedev. We'll see, and we will be watching. I'm not certain the system has finally released her from its embrace.'

Vasily Aleksanyan, his life ebbing away from AIDS and tuberculosis, was permitted some medical treatment by the prison authorities. By December 2008, the young Harvard lawyer was in critical condition. The Prosecutor's Office accepted that he was too sick to stand trial, but refused steadfastly to order his release from gaol. On 22 December, the European Court of Human Rights issued a judgement stating that Aleksanyan's rights had been violated on several counts including the refusal to provide him with medical treatment and his continued incarceration despite the parlous state of his health. The court concluded that 'the applicant's detention on remand should be discontinued'. Eight days after the ECHR ruling, Vasily Aleksanyan was released, but not until the Russian Court had demanded and received an unprecedented \$1.8 million in bail. He spent the months after his release receiving treatment for AIDS and lymphatic cancer.

Alexei Pichugin remained in the labour camp where he had been sent for

a total of forty-four years on murder charges. He told his lawyers that he had been put under considerable pressure to testify that the murders were carried out on the orders of his Yukos superior, Leonid Nevzlin. When he refused, he was brought to Moscow for a third trial in August 2007, at which his sentence was increased to life in gaol.

Leonid Nevzlin himself remained in Israel resisting demands from Moscow for his extradition. His trial *in absentia* which had begun in March 2008 reached its conclusion five months later. On 1 August, the Moscow City Court found him guilty of organizing eleven murders and attempted murders, as well as the same theft and tax evasion charges for which Khodorkovsky and Lebedev were already serving time. Nevzlin was sentenced to life imprisonment, but a request to the Israeli authorities for him to be handed over to serve it was turned down on the grounds that the evidence presented was insufficient to warrant his conviction. The Americans, too, continued to permit him unhindered access to the US and he has travelled there frequently despite the Russian warrant for his arrest.

Mikhail Brudno believes Khodorkovsky was sincere in his attempts to reform Russian society and create a 'new Russia' for all their children. But he cannot help reproaching his former comrade for the pain he inflicted on those around him in the pursuit of his own goals:

Sixsmith: So, he sincerely believed in all those ideals? He believed in the creation of a democratic society?

Brudno: Yes. I think he realized his chances for success were slim. But he believed it was his duty to at least try. My opinion — and I told him so many times — was that it was all pointless. I told him that nobody wanted democracy in that country. It was only him, me and some other people — a very narrow circle of people — who wanted to see that happen . . . but those were people who had no power or authority to bring the changes about.

Sixsmith: And what was his answer to that? What did he say to you in reply?

Brudno: He said, 'We will still keep trying. We will keep trying.' And now, as the result of that, he is there and we are here. You see. End of story. People had told him many times, 'You must leave the country. Forget it all and leave.' I was dealing with the business side of things, and I was doing that well. So, he left that to me. But still he managed to implicate me in this whole story. Me and hundreds of other people, who had not the least intention of working with him for the sake of democracy. All they were interested in was the business they were doing with him. Yukos was the only thing that connected them and him. And yet they, too, were implicated in the story — and they are now, many of them, in prison, and many more are émigrés, living abroad.

That was the core of the problem — that he felt he had to finish one project, Yukos, put it aside and move on . . . on to other things: politics, democracy and such, with

a banner proudly up above his head — ‘Fine! Who wants to join me in fighting for democracy? Follow me!’

But the way it really was, it dragged in many people who had no intention of joining his struggle against the regime.

Light at the end of a disaster?

The Yukos case was a disaster for those immediately caught up in it. The idealistic young men who set out to build the company back in the early 1990s and who contributed much to the Russian economy in terms of infrastructure, jobs and charitable institutions were sent to gaol or into exile. For them the affair was a personal catastrophe.

The acrimony between some of the leading figures in GML, the accusations of betrayal and treachery, were a sad ending to the dream of building ‘a company to shake the world’.

But they were dwarfed by the titanic scale of the clash between the two central personalities in this saga — Mikhail Khodorkovsky and Vladimir Putin. It was their vaunting ambition, their overblown self-belief bordering on megalomania, their implacable hatred and at times unnerving fear of each other that drove the two most powerful men in Russia to engage in an ultimately self-destructive confrontation.

Khodorkovsky was the most obvious loser. He lost his liberty, his family, material possessions and worldly position; his life was blighted, however much he claimed to have found new values and priorities in the silence of his prison cell.

But Putin, too, has been a loser: the image of the liberal, pro-business, pro-democracy, pro-law President he cultivated during his first years in power was shot to pieces in the cross-fire of the Yukos debacle. He is now regarded as the man who called time on free enterprise in Russia, who introduced the new ‘managed democracy’ that denies freedom of business, freedom of speech and freedom to engage in opposition politics. For all these epochal changes, one — if not the — trigger was Yukos.

And Russia has been a loser as well: it has lost the talents of a man like Khodorkovsky together with the contribution he made to democratic politics and to philanthropy in a country that needs as much of that as it can get. Even more significantly, the outcome of the battle over Yukos has confirmed the triumph of the hardline, statist Siloviki in the Kremlin. Their tactical successes in the affair, and their enlistment of Vladimir Putin to their cause, routed the old liberals who had vainly tried to keep the country on the open, tolerant, Western-friendly course it briefly took in the 1990s.

The strategic consequences of the Yukos case for Russia and the rest of the world are hard to overestimate. Putin took back ‘his’ oil from the man he accused of stealing it from the state. The oil has gone to Rosneft, run by Igor Sechin, a Putin crony and a member of the Siloviki. The return of Russia’s vast oil reserves to state control — or, rather, to Silovik control — has given the

Kremlin the clout and confidence to implement its new hardline policies at home and abroad without fearing criticism from any quarter. Able to blackmail other states with threats of oil and gas blockades, it has resumed its seat at the world's top table.

Putin's aide, Dmitry Peskov, was quite correct when he explained to me the success of Vladimir Putin's approach:

Well, it's easy to sum up. Just say that actually what we had in the year 2000 or 1999 was a country being very close to collapse, to economic collapse, a country drowning in foreign debt and being unable to pay it off, begging for another loan and not knowing how to pay the debts. It was a country unable to pay salaries to doctors, to civil servants, to teachers, miners and so on. That was a country with close to zero production growth. It was a country with an annual budget comparable to or less than the budget of the single city of New York.

What happened next, after President Putin became head of state? Well, he found himself involved in crisis management, in restoring order in every possible sphere, that of the economy, the fight with crime, the fight with corruption.

The dynamics of the whole development of the country changed dramatically. Russia became a country with a tempo of annual growth of GDP of more than 6 per cent or 7 per cent per year; a country that managed, of course, partly by using the unique opportunities given by high prices for energy sources . . .

Certainly we cannot say that we are not an oil-addicted country. Of course we are dependent on oil prices, but . . . now the development of this country, the vector of development, the destination, is right. We just need a little more time to complete the process of reforms, to cope with these existing problems. I think we all have to be patient: this addictiveness to oil prices will be minimized.

The success of Russia's oil-based economic revival at the opening of the new millennium contributed in turn to profound political changes. The confidence of the Siloviki and the ruthlessness with which they steered Russia away from the liberal reforms of the 1990s derived directly from Russia's newfound economic strength; that strength stemmed almost totally from the clout they had gained from the exploitation of the country's energy reserves; and they got their hands on 'Russia's' oil in large part by crushing Yukos.

In light of the economic and geo-political benefits it brought, the Kremlin seemed unconcerned by the collateral damage the Yukos affair caused. A West that is beholden to Russia's energy is a West that is not going to criticize Moscow's domestic excesses. The Kremlin now represses political opposition with impunity. Demonstrations are routinely broken up and protestors beaten and arrested. The media have been muzzled and journalists and lawyers who criticize the Kremlin murdered. Opposition parties have been harassed and attacked; many have been refused the right to register for elections and denied the use of public buildings to hold meetings. There has been a *de facto* ban on opposition views appearing in the press or on radio and television.

For those people who were drawn into the political battle, who suffered in the war over Yukos and who lost their liberty or their livelihood, a decision on the fate of Khodorkovsky will not change what they have had to endure, but it could open the way to freedom and a better future. The future course of East–West relations could also depend on it.

In historical terms, the titanic struggle between Khodorkovsky and Putin is a clash of two world views — liberal, Western looking and democratic on the one hand; authoritarian, repressive and confrontational on the other. They are the direct descendants of the nineteenth-century Westernizers and Slavophiles. They are two Tolstoyan figures determined to battle for the future of Russia, and the outcome of that battle continues to influence her fate and that of the rest of the world.