

How Khodorkovsky became Russia's richest man

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The oligarch Mikhail Khodorkovsky, who was pardoned by Russian President Vladimir Putin shortly before Christmas after ten years in prison, is being celebrated by German politicians and the media as a martyr for democracy.

Green Party politician Marie-Louise Beck told Deutschlandfunk radio that when she talked to Khodorkovsky for the first time in Berlin, he was “a person I had stayed very close to emotionally for over eight years,” and that to embrace him “was really very nice.”

Left Party chairman Gregor Gysi wrote on his Facebook page, “The pardon is an important, overdue and urgently necessary step.” Left Party deputy Stefan Liebich also expressed his satisfaction at the release of the oligarch, criticising only that one had “the impression that the head of state decides who goes to prison and who is set free.”

Foreign minister Frank Walter Steinmeier told the *Frankfurter Allgemeine Sonntagszeitung*, “I am happy that Mikhail Khodorkovsky is free in Germany. Everyone who had a part in this deserves thanks.”

Chancellor Angela Merkel also welcomed the move.

The excitement in German ruling circles over Khodorkovsky reveals more about the state of democracy in Germany than political conditions in Russia. The rise of the 50-year-old to the position of richest man in Russia, which ended in 2003 with his arrest, went hand-in-hand with crimes punishable under German law.

Born in 1963, Mikhail Borrishevitch Khodorkovsky studied chemistry and then economics like his parents. He laid the basis for his future wealth in the USSR by becoming an official in the Communist Youth Association (Komsomol).

Under Gorbachev, selected Komsomol members were

allowed to experiment with the market and trade. As head of Komsomol company NTTM, working on free-market principles, Khodorkovsky imported computers, jeans and cheap brandy that he sold as expensive Cognac. Among other things, he exported Russian dolls.

Subsequently, Khodorkovsky and a business associate found an opportunity to transform the industrial currency circulating in the Soviet Union into rubles. According to *Der Spiegel*, this was “like a license to produce gold.”

In 1989, he took over the chairmanship of one of Russia's first private banks. It had been founded with the aim of creating financial resources for NTTM. In 1990 the bank bought NTTM and renamed it Menatep-Invest, with Khodorkovsky as CEO.

After the dissolution of the Soviet Union at the end of 1991, Khodorkovsky's relations with Russian President Boris Yeltsin helped him further. In 1993, he was appointed a member of the advisory council to the Prime Minister, deputy minister for fuel and energy as well as a member of the Russian government's “council for industrial policy.”

The credo of the then 30-year-old emerged that year: “We don't want to disguise that we are inspired by wealth. Our aims are clear, the task has been determined—we want to become billionaires. We're sick and tired of living according to Lenin! Our idol is his majesty, capital.”

As a member of the government, Khodorkovsky was involved in the sale of companies which enriched Khodorkovsky as a banker. He took part in the 1995 cabinet meeting on the “loans for shares” programme that provided the framework for the privatisation of several oil companies.

Khodorkovsky achieved his greatest coup in 1995. In

an auction, Rosprom, a subsidiary of his Menatep Bank, purchased a majority share in oil company Yukos for just \$309 million—a fraction of its market value. The auction was conducted by Menatep, which had already been acting as Yukos’ company bank. In more than one sense, this was insider trading. Within a short time, the value of Yukos rose by a factor of one hundred, to \$30 billion.

In 1996, Khodorkovsky switched from the head of Menatep to the top of Yukos. Along with other oligarchs, Khodorkovsky ensured with massive financial backing the re-election of Yeltsin, who had become a mainstay for the oligarchs, and who guaranteed their boundless enrichment through the plundering of public resources.

Khodorkovsky’s rise was not only based on connections, insider dealing and corruption. Like other oligarchs, he used more violent methods. In 2006, the head of security at Yukos was sentenced to 24 years imprisonment for a series of murders.

Putin declared on television that he was convinced that he had acted on “instructions from his chief.” Nonetheless, Khodorkovsky’s connection to the murders was never proven in court.

One of Khodorkovsky’s unexplained victims was the mayor of the town of Nefteyogansk. In 1998, due to alleged corruption, Yukos stopped paying taxes and transferred money directly to hospitals and similar institutions. When the mayor opposed this, he was murdered shortly afterwards.

At the end of the 1990s, the multi-billionaire Khodorkovsky transformed himself into a businessman advocating transparency, Western accounting practices, honesty, openness and accountability.

His wealth continued to rise rapidly. Yukos became the fourth largest producer of oil and gas. On the Forbes list of the world’s richest men, Khodorkovsky rose to 26th place (2003). He was no longer primarily concerned with robbing more, but with protecting the wealth he had stolen from other thieves.

Khodorkovsky began to criticise the government and to finance opposition parties, from the right-wing liberal Yabloko to the Communist Party, and presented himself as the West’s man. At the same time, he boasted publicly that he could buy parliaments and election results.

After speaking with US oil firms Exxon and Chevron

about a sale of Yukos shares and clashing with Putin in front of television cameras, the state prosecutor pursued him. He was arrested in 2003 and in 2005, together with his business partner Platon Lebedev, he was sentenced to ten years imprisonment for gross corruption and tax evasion. The sentence was later revised to eight years.

The European Court of Human Rights in Strasbourg, where Khodorkovsky lodged an appeal, supported him on several issues relating to his conditions of imprisonment. But it rejected claims that the criminal prosecution had been abused for political motives.

In 2010, Khodorkovsky and Lebedev were sentenced to a further six years for the embezzlement of oil funds worth billions. The prosecution met with strong international criticism over alleged government interference.

Khodorkovsky has lost much of his former wealth during his ten years imprisonment. Yukos was dismantled and merged into the state-run concern Rosneft. Khodorkovsky is, however, by no means a poor man as a result.

For good reason, he has remained silent about his wealth. Yukos operated in Switzerland and maintained numerous shadow companies in tax havens where money was deposited. In Switzerland alone, the state prosecutor temporarily froze 5 billion francs in response to a Russian legal request. The money had been deposited in Swiss bank accounts by Menatep shareholders.

In 2011, Forbes estimated that Khodorkovsky’s wealth was still \$2.2 billion, maintaining this despite his lawyer’s denials. While searching a branch of Swiss private bank Julius Bär in 2010, German prosecutors unexpectedly discovered \$17 million Khodorkovsky had deposited in an offshore account. A money laundering investigation was quickly halted, however.



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