

# Russian minister of economic development arrested

David Levine

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On November 14, Russian Minister of Economic Development Aleksey Ulyukayev was arrested at the office of the Russian oil concern, Rosneft, for attempting to extort a \$2 million bribe for the sale to Rosneft of the state-owned controlling interest in Bashneft, another oil company.

The following day, Russian President Vladimir Putin dismissed Ulyukayev from his position in government “in connection with a loss of trust.” Ulyukayev is currently under house arrest. If convicted, he faces a prison sentence of up to 15 years.

Ulyukayev is the highest-ranking Russian government official to be arrested since the collapse of the Soviet Union in 1991. His arrest has led to extensive speculation among media commentators about infighting at the highest levels of government, particularly with regard to the privatization of state assets.

Ulyukayev had initially opposed the sale of the Bashneft stock to Rosneft, as had Prime Minister Dmitry Medvedev, First Deputy Prime Minister Igor Shuvalov and Deputy Prime Minister Arkady Dvorkovich. Because the state currently owns a controlling share of Rosneft, they wanted Bashneft to be sold to private investors.

Svetlana Petrenko of the Investigative Committee of Russia, which brought a criminal complaint against Ulyukayev, told news agency TASS on Monday that the sale itself of the Bashneft stock to Rosneft was executed lawfully and was not the subject of investigation.

Russian media network *Life*, citing an anonymous source within Russian government security agencies, reported that Ulyukayev had been under investigation since early 2016. The Federal Security Service (FSB) had already gathered substantial evidence of other corrupt activities involving Ulyukayev and his associates.

According to *Life*, wiretapping of Ulyukayev’s personal communications revealed that he was trying to lobby for the interests of certain foreign banks and

companies in the privatization of state property, including the privatization of military industrial enterprises. They had allegedly caught him in several corrupt transactions and simply awaited an appropriate occasion for the arrest.

The source stated that Ulyukayev had demanded \$40 million from Rosneft in exchange for the government’s approval of the Bashneft purchase. After the government approved the sale on October 10, Rosneft attempted to avoid making the payment to Ulyukayev, arguing that such a payment had not been agreed to in writing.

In response, Ulyukayev threatened to cancel the sale. On November 14, Rosneft representatives, working in cooperation with FSB agents, invited him to their office. He agreed to reduce the payment to \$2 million. They gave him a bag containing \$1 million, explaining that they would bring him the other \$1 million later. Then he was arrested.

*Life*’s anonymous source said that new charges against Ulyukayev may appear in the near future. Investigations of other high-ranking government officials may also take place.

At the head of Rosneft stands CEO Igor Sechin, who until 2008 had been deputy head of Putin’s administration and was then made a deputy prime minister of Russia, a post he held until 2012. He is a close ally of Putin and has been ranked by *Forbes* magazine as the second most powerful person in Russia. Sechin has been associated with a conservative tendency that opposes privatization of state-owned property.

Many commentators have pointed out that the payment to Ulyukayev seemed particularly improbable. In addition to the fact that Putin and Medvedev had approved the deal on the basis of undisputed market valuations, Sechin is such a powerful individual in Russia that he is an unlikely person from whom to attempt to extort money.

Ex-Finance Minister Aleksei Kudrin, currently head of the Russian government’s Strategic Developments Center

and a fiscal hawk associated with the country's liberals, expressed doubt about Ulyukayev's guilt. He told the *Russia 1* television channel on November 19, "I can't even imagine that the minister [Ulyukayev] could behave in such a way toward a person with such heavyweight authority as Sechin."

Western news sources have argued that Ulyukayev's arrest points to the increasing power of the Russian state security services and, in the words of the BBC, a "symbolic blow to the liberal camp in government." Similar arguments have been made in Russia. Others have been less conclusive in asserting the political implications of the arrest, simply noting that it demonstrates that no segment within the political establishment is "untouchable."

Over the past week, a number of high-ranking regional government officials in Russia have also become subject to criminal charges, all related to bribe-taking, embezzlement and extortion. These include Aleksey Ivanov and Aleksandr Danilchenko, deputies governor of Kemerovo Region; Sergey Kalinkin, head of the Kemerovo Regional Investigative Committee, along with his subordinates Sergey Kryukov and Artemy Shevelyov; Marat Oganessian, former deputy governor of St. Petersburg; Dmitry Koshurnikov, mayor of Pereslavl-Zalessky; and Alan Tsabiyev, director of the state property agency for North Ossetia.

These events come in the wake of a series of high-level resignations and dismissals from the Russian government, including Putin's chief of staff, who was replaced by a young and relatively unknown political insider. The turmoil ultimately points to a mounting crisis within the elite, who are riven by disagreements over how to handle the country's economic decline and escalating geopolitical confrontation with the US and NATO.

Allegations of corruption, although very often well-founded, have long served as a method of resolving differences within ruling circles in Russia. In post-Soviet Russia, in particular, the view that corruption is the most serious problem affecting society has been intensely promoted by right-wing opposition forces.

The Russian ruling establishment has long maintained a consensus that the privatization policies carried out in the 1990s, which amounted to a massive theft of publicly owned industries, are not to be reconsidered or otherwise put in question. However, future privatization plans have been the subject of sharp disagreements, with the so-called "economic bloc" within the government pushing for a faster pace of privatization than that preferred by

other tendencies.

"Over recent years, privatization took place slowly for various reasons. The market, by the way, was also in a poor condition, possibly because we had no such urgent needs or necessity to replenish the budget through revenue from privatization. Now there is such a necessity, and we therefore have intensified our work on the privatization plan. A number of decisions have been made. This affects [diamond-producing conglomerate] Alrosa as well as the controlling interest in Bashneft," Prime Minister Medvedev told journalists on November 11.

The implications of the "urgent needs or necessity to replenish the budget through revenue from privatization" go far beyond a reshuffling of government officials. The Russian federal state's income fell by 5.4 percent during the first eight months of 2016, as compared to the same period of the previous year. With correction for the 12.91 percent inflation rate recorded in 2015, the drop is more severe. It is associated with the ongoing economic crisis, involving international sanctions against Russia and low world oil prices, as well as the unwillingness of the government so far to raise taxes.

The solution being prepared by the government is an intensified assault on the living standards of the working class. On November 18, Finance Minister Anton Siluanov presented to the Russian State Duma a draft budget for 2017-2019 that includes sharp spending cuts in education, health and other social services.



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