



## Khodorkovsky's Guilty Verdict

Khodorkovsky made a reputation for himself not only by being a self-made billionaire, through his oil company, but also by becoming a nettlesome critic of the Kremlin. Khodorkovsky has many critics of his own in Russia and the West who denounce him as a robber baron, a godfather of the Russian Mafia, and a corrupt “oligarch” — and just as many supporters who praise him as an entrepreneurial genius, political reformer and human rights champion. His [Khodorkovsky Center](#) carries out an aggressive public relations campaign that has won support for him among many political leaders, academics, human rights activists, and celebrities worldwide.



While many “facts” concerning Khodorkovsky and Yukos are in dispute, his carefully cultivated image as an exemplar of “free market capitalism” does not exactly square with reality. There is little question that Khodorkovsky’s privileged status as a member of the Communist Party and the [Komsomol](#) gave him a leg up on most of his fellow Russians when the false “privatization” of state assets began under Yeltsin. And it was not only that this gave him a head start; Khodorkovsky continued to benefit from assistance and sponsorship from the Komsomol and crucial favoritism from the Yeltsin clique in power. This was especially true with regard to the special arrangement that put Khodorkovsky’s Bank Menatep in charge of the “auction” of the massive Yukos assets, as is explained in this [story from Forbes](#) in 2002:

Khodorkovsky’s Bank Menatep was put in charge of processing the bids in the Yukos auction. The winner turned out to be a company controlled by ... Khodorkovsky and his partners. A rival bid by three big Russian banks, which offered more money than Khodorkovsky’s outfit, was disqualified on technical grounds.

The \$350 million that Khodorkovsky and his partners paid for control of 78% of Yukos was quite the bargain. It implied a value for the whole company of \$450 million. When the shares began trading less than two years later, Yukos’ market capitalization was \$9 billion. Today the market cap is closer to \$15 billion.

### Instant Billionaire

That’s not exactly the same as earning one’s fortune “the old fashioned way.” Not that Khodorkovsky didn’t exhibit some positive management attributes. Following the 1998 economic downturn that afflicted Russia, Khodorkovsky reorganized Yukos by giving his company a fresh start through cleaning up its accounts and replacing its old Soviet-minded managers with experts from abroad. In addition, he replaced obsolete and inefficient Soviet machinery and hardware with state-of-the-art Western technology. Ultimately, however, this served the purposes of the Kremlin leaders, providing badly needed modernization of the crumbling Soviet oil industry, even as they attacked Khodorkovsky for



doing so.

As a result of Khodorkovsky's sweeping changes, Yukos skyrocketed to top tier status, outperforming all other Russian companies in both efficiency and profit-making. By 2000, Yukos was paying nearly \$2 billion in taxes to the Kremlin and was responsible for nearly 2% of the world's total oil production. All of this was certainly not a crime. What was a crime — in the eyes of Putin and the Kremlin's political oligarchs — was Khodorkovsky's apparent intention to build his own power base by "spreading the wealth" of his company's profits not only among Kremlin-approved Duma members of parliament, but to their opponents as well. Khodorkovsky's supporters point to these political campaign contributions as proof of his heroic commitment to "pluralism" and "democracy" in the face of tyranny. But much of his support — to Gennady Zyuganov's Communist Party, and the Yabloko Party, for instance — fails to provide convincing proof of anything other than a pragmatic will to co-opt political support wherever possible. While these "controlled opposition" parties are allowed to function to provide a fictitious image of "democracy" in Russia, genuine opponents of Putin's ruling [siloviki](#) are harassed, imprisoned, beaten, and murdered.

If Khodorkovsky's political jockeying riled the Kremlin power structure, he undoubtedly crossed the line with his plan to construct his own oil pipeline (with the help of a U.S. energy company) to rival Russia's Transneft state-owned Druzhba pipeline.

The [BBC News](#) described Khodorkovsky's apparent defiance of Russia's ruling elite as challenging "the very foundation of the oligarchic system." A less melodramatic, and more accurate, assessment might see the Khodorkovsky vs. Putin affair simply as a falling out among thieves, a case of one set of oligarchs attempting a coup against another set of oligarchs. And in this case, Khodorkovsky is no match for Putin, who is holding all the guns.

Putin's government made its disapproval of Khodorkovsky and his company, Yukos, very clear with the arrest in 2003 of Platon Lebedev, director of Group Menatep, the parent company of Yukos. In what now appears as an allusion to Khodorkovsky's eventual fate, Lebedev was arrested on charges of embezzlement.

Khodorkovsky did not buckle to the Kremlin's attacks, but instead retaliated by taking a highly-publicized tour of Russia's Far Eastern Federal District to meet with local political and business leaders. His resistance, however, was futile: on October 25, 2003, when his private jet landed to refuel at the Novosibirsk airport in Siberia, FSB officials stormed the plane and arrested him, sending him to a federal prison in Moscow until his court trial.

Within days of his arrest, Yukos' stock market shares plummeted, and by 2006 the once mighty oil giant was submerged in bankruptcy. Khodorkovsky was forced to sell his personal company stock shares and eventually the company itself, piece by piece, in order to make payments for the taxes and fees levied against him. Russia's richest man had become the destitute resident of a decrepit Russian prison cell. The titanic fall of Yukos was a grim reminder to Russia's business leaders never to challenge the government. It also serves as a timely reminder to outside observers that we are witnessing a repeat of the fate that befell Russian business oligarchs at the hands of Stalin, following the "capitalist" interlude of Lenin's New Economic Policy. As *The New American* reported last year:

There is good reason to believe that many of the murders of (and murder attempts on) Russian oligarchs and crime bosses may be part of the larger Putin effort to take back state control of assets that were privatized in the 1990s. It can be likened to Stalin's re-nationalization of wealth that had found its way into private hands during Lenin's New Economic Policy (NEP). The NEP was a massive deception run by Lenin's NKVD (forerunner of the KGB) to lure Western aid and investment. Communist Party officials posing as Russian "businessmen" went into partnership with Western companies, and for a number of years gave the appearance that capitalism was replacing communism in Russia. In order to make the ruse convincing, the communist



Written by [Christian Gomez](#) on December 31, 2010

“capitalists” had to be given some latitude. Many of the newly minted business elite quickly became seduced by the wealth and lifestyles that came with their assignments; they began building impressive dachas and stashing gold, foreign currencies, and other valuables. Stalin put an end to that. He instructed Genrikh Grigoryevich Yagoda, NKVD chief and People’s Commissar for Internal Affairs, to ferret out all the secreted wealth of the “corrupt” comrades, including their secret Swiss bank accounts. This Yagoda did, and Stalin then had the offenders purged (usually tortured and killed). However, Yagoda had made one particularly startling omission in his otherwise thorough investigation: his own Swiss bank account. Stalin, not trusting anyone, had had his own personal secret inner intelligence service investigate Yagoda. He confronted Yagoda with his own theft of “the People’s” property. Yagoda himself was executed in the same manner as those he had executed.

“The story of Yagoda and of Stalin’s purge of the ‘capitalists,’” *The New American* continued, “is told in *The Party’s Gold*, published in 1986 by Russian historian Igor Bunich. Putin appears to be carrying out a similar Stalinesque campaign of recovering the Party’s assets. Stalin, of course, was the most corrupt of criminals, but like any crime boss, he couldn’t tolerate skimming by underlings, nor would he allow other economic and political power bases to develop that might challenge his power monopoly. The fake capitalism that Lenin had encouraged under the NEP had been a temporary necessity to save the Soviet Union from economic collapse. But once it had served its purpose, the Soviets dropped all pretenses and resumed their old communist ways. A replay of that saga is underway now in Putin’s Russia.” On December 27, in what [came as no surprise to Russia’s media](#), Khodorkovsky was found guilty of the charges against him.

Although Khodorkovsky remains unpopular with most Russians, “the public has realised that only those ‘oligarchs’ who dare to stand up to the authorities have problems with the law,” [wrote](#) Andrei Ostalski of the BBC.

Some of Khodorkovsky’s supporters rallied outside the court, in a sign of solidarity, shouting remarks such as “Freedom!” and “Put Putin in prison,” [reported](#) the BBC.

White House Press Secretary Robert Gibbs relayed the White House’s [response](#) to the guilty verdict: “We are deeply concerned that a Russian judge today has indicated that for a second time Mikhail Khodorkovsky and Platon Lebedev will be convicted. We are troubled by the allegations of serious due process violations, and what appears to be an abusive use of the legal system for improper ends.” President Obama, said Gibbs, viewed the verdict as an attack on the rule of law and constitutional order:

The Obama administration stands in solidarity with the many people in the Russian government, in the legal system, and in civil society who are committed to strengthening the rule of law and deepening the commitment to universal values enshrined in the Russian constitution. Russia’s failure to keep this commitment to universal values, including the rule of law, impedes its own modernization and ability to deepen its ties with the United States.

The guilty verdict reveals a Russian legal system guided not by the rule of law but rather by politics, reminiscent of the legal system of the Soviet Union. Apparently, little has changed, as the Russian people are once again reminded not to defy the will of the state and the oligarchs in power.

*Photo: Mikhail Khodorkovsky*



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