

## Unknown Boris Berezovsky interview

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"We hired Anatoly Chubais. We invested huge amounts of money in the election campaign. We secured Yeltsin's election victory. Now we have the right to assume posts in the government and enjoy the fruits of our victory." He named bankers who controlled half of the Russian economy: Khodorkovsky, Potanin, Alexandr Smolensky, Vladimir Gussinsky, Vladimir Vinogradov, Mikhail Friedman, and himself."

## Moscow's Group of Seven

Financial Times | November 1, 1996 | Chrystia Freeland, John Thornhill and Andrew Gowers on the business leaders shaping Russia's future

Every January, an extraordinary collection of politicians and senior business leaders from around the world descends on the Swiss resort of Davos to ski, eat, drink and make deals.

Even by its own standards, however, this year's World Economic Forum was the backdrop for a bargain of unusual significance. Behind the scenes and without the knowledge of other participants, a small group of top Russian businessmen fanned an alliance that would reshape their country's future.

They agreed that a communist victory in the summer presidential election had to be stopped at all costs. To forestall such a disaster, it was imperative that President Boris Yeltsin's fading fortunes be revived. One man, they decided, had the talents for the task: Anatoly Chubais, former minister, economic reformer and architect of Russia's privatisation programme.

Their pact was more than the beginning of Mr Yeltsin's political resurrection and ultimate victory in July. It also established a new centre of power in Russia, uniting tycoons who typified the country's new capitalism and who had been savage rivals until this year.

The same tight-knit group of seven businessmen now meets weekly and works closely with Mr Chubais, now the ailing President Yeltsin's chief of staff. Its members portray themselves quite openly as the main force shaping Kremlin policy.

And the group has placed two of its members - Mr Vladimir Potanin and Mr Boris Berezovsky - in important government positions. This week's appointment of Mr Berezovsky, head of a sprawling business empire comprising car dealerships, TV stations and a bank, as deputy secretary of the Kremlin's Security Council consolidates the businessmen's capture of power.

On Wednesday Mr Berezovsky revealed for the first time in an interview with the FT how the business alliance funded Mr Yeltsin's re-election drive to the tune of about \$3m. He described how it appointed a 10-strong campaign team headed by Mr Chubais and also containing Ms Tatyana Dyachenko, Mr Yeltsin's daughter. And he explained why he and his colleagues had concluded they had to join the government to protect capitalism in Russia.

"Before the elections, business realised that if business is not consolidated - If we are not strong and decisive - we will not have a chance," he said. "It is not possible to have this [market] transformation automatically. We need to use all our power to realise this transformation."

Apart from Mr Berezovsky, the group of seven comprises: Mr Potanin, former head of Onextm-bank and now first deputy prime minister for the economy; Mr Vladimir Gusstnsky, head of the powerful Most banking and media group; Mr Mikhail Khodorkovsky, president of the Menatep financial and oil empire; Mr Peter Aven and Mr Mikhail Friedman of Alfa Tbmir; and Mr Alexander Smolensky of Stolichny Bank. Their six enterprises, according to Mr Berezovsky, control about 50 per cent of the economy.

By the accounts of several of their number, these men were intimately involved in every step of Mr Yeltsin's re-election campaign and the subsequent political manoeuvring. They engineered the alliance between President Yeltsin and Mr Alexander Lebed, his presidential rival, after the election's first round - without which, said Mr Berezovsky, the president would have been "unable to win decisively" in the second.

The businessmen's proposal that Mr Chubais be appointed presidential chief of staff was also a logical one. The 41-year-old former privatisation chief was respected by the president; of all Russia's young economic reformers he had shown himself to be the deftest wielder of power; he believed passionately in the market economy and was not over-delicate about how - or with whom - to secure it.

As important, the bankers largely saw themselves as Mr Chubais's creation, since their fortunes were founded on the reforms he introduced. "My position is very natural," said Mr Berezovsky. "I am a product of privatisation. That is why I am so close to Chubais's mentality."

Now, together with the president's daughter, Ms Dyachenko. Mr Chubais serves as the businessmen's conduit to the sick leader. "She is the most effective channel to inform the president," said Mr Berezovsky.

During the elections, the businessmen further entrenched themselves by ousting rival factions from the president's entourage. First to go was the hardline clan surrounding General Alexander Korzhakov. Mr Yeltsin's former security chief and drinking partner. "We had not only to elect a president who would continue reform, but also to cut the right wing and the left wing," Mr Berezovsky said.

With victory secure, it was time to dispense with Mr Lebed, the unruly general who was, in Mr Berezovsky's words, "starting unfortunately to destroy the power". He was sacked by presidential decree last month.

At the same time, the group was debating how to exercise its power. In Russia's infant market economy, members decided, the new moguls had to assume authority in their own right. The banks had to have their men in government.

According to Mr Aven, president of Alfa Bank, it was their collective decision to bring Mr Potanin into the government. "He [Potanin] had the feeling that one of the big bankers had to go there," he said. "He had the support of the other big banks." The businessmen's reasoning was stark. Even if the threat of communism had receded with the July election, Russia's future as a flourishing and stable market economy was far from secure. Not only was the president largely out of action pending heart surgery; there was also the risk of serious social unrest, with wage arrears mounting and government finances collapsing. The bankers - several of whom are leading members of

Russia's Jewish community - feared they could become the target of an extreme nationalist backlash.

Mr Berezovsky said he thought a nationalist shift was inevitable: "The question is only what price we will pay for it: an ocean of blood or just a cough."

The businessmen's answer is now apparent. They have assembled a remarkable political machine to entrench and promote the market economy - as well as their own financial interests. They not only have significant roles in the cabinet and the Kremlin, they also control Russia's two top television networks, a popular radio station and a growing number of national newspapers assets they are happy to use to advance their agenda.

"We and the group of Mr Gussinsky were the first who realised how the mass media could assist the different steps we wanted to take," said Mr Berezovsky. "If the media had not been free or private, we would not win elections."

The group of seven see themselves as an embattled elite pooling their efforts to steer Russia through a difficult transition. Other important figures in the country take a different view.

Mr Berezovsky's appointment this week has sparked vigorous protests uniting the communist opposition and Russia's small band of liberal democrats. Critics say the businessmen represent an unelected oligarchy whose rise to power jeopardises the country's chances of becoming a democratic state with an open market economy based on the rule of law.

Mr Sergei Kovalev, a leading human rights campaigner, said: "It is very dangerous, because we could very easily find ourselves controlled by a new nomenklatura... They are getting new privileges - and eating increases the appetite. This new nomenklatura is insolent and is not subject to any rules."

Mr Grigory Yavlinsky, leader of the liberal Yabloko party, agreed: "Our new regime is reproducing the characteristics of the old system." The new financial and media empires were more than business concerns: "The name is not just banks and television: it is oligarchy and mafia."

The motives of the businessmen may be clear, but what puzzles many is what Mr Chubais is up to. He has won enormous respect in the west for his bold market reforms and integrity, and grudging admiration in Russia for his staying power in government. But today, some of Mr Chubais's oldest friends fear he has made a Faustian bargain.

If so, he almost certainly knows what he is doing. Mr Kovalev, a former dissident and an MP for Russia's Choice, the party Mr Chubais helped found, recalls a conversation a couple of years ago in which Mr Chubais complained bitterly about leading businessmen.

"They steal and steal and steal. They are stealing absolutely everything and it is impossible to stop them," he quoted Mr Chubais as saying. "But let them steal and take their property. They will then become owners and decent administrators of this property."

Mr Kovalev commented wistfully: "From my point of view this is economic romanticism. There is a view that the country will become a market economy and then everything good will follow. Then there will be democracy. In my view it is a very dangerous mistake."

He is not alone in his worries. Mr Yegor Gaidar, Russia's first reforming prime minister in 1991-92 and a close friend of Mr Chubais, voiced the fear in an interview this week that the new Russian brand of

capitalism - featuring intimate ties between corporations and the state and restricted markets - could be fatally flawed.

"To tell you the truth, I dislike it," he said. "I know from economic theory that if you try to restrict markets you create the basis for enormous corruption."