



Transcript

Russia's Rotten Core: Money, Politics and the Rule of Law

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John Lloyd:

Welcome, ladies and gentlemen. Pardon the late start. A couple of rules – Chatham House, or Moscow, rules – one is, turn off your mobile phones right off, if you will, otherwise it will interfere with the live streaming. Secondly, the Chatham House rule is that Chatham House Rules are not operating. This is on the record, for anybody who wishes to ask questions, and of course for our panel, or indeed make a contribution yourself.

I'm John Lloyd. I'll introduce the panellists in a second, but just to say that corruption is seen now as one of the major problems in the global economy. The G20 in their meeting in April affirmed it. It's also a huge problem for Russia. Russia is 143rd in Transparency International's 'Perceptions of Corruption [Index]'. It's improved. It was at 154, which is pretty low, because there's about 170 in the Transparency International list. But it has improved, and it may indeed have improved because then-President Dmitry Medvedev said that it was a priority for him to reduce, indeed, one might say stamp out, corruption. So that may have had an effect. Clearly it's very difficult to stamp out corruption with the best possible will, as a number of people have found. Our panellists are well able to comment on just how hard that is.

To introduce them: Alexander Lebedev, who is in the centre there, well known I think to most people here. He is the publisher in Moscow of *Novaya Gazeta*, one of the most fierce critics of the regime. And in this country he is a major newspaper owner. He bought the *Independent* title, *Sunday Independent*, daily *Independent*. Under his ownership, the Independent Group have started a successful tabloid, a fact-based tabloid, not celebrity-based, called *i*, which has gone well. And even better has gone the *Evening Standard*, which is free and is pressed upon us all at Tube stations, and that's shown – something like tripled in circulation, perhaps not surprisingly, but is able to do well because of the advertising increase as well. So we're very glad that he is here. He is also in Russia – his major holding is the Russia National Reserve Bank.

Vladimir Ashurkov, who is immediately to my left, is the executive director of the Foundation for the Fight Against Corruption, and he's also a close aide to the well-known, now, Alexei Navalny, who is one of the opposition leaders, the leaders of the demonstration, who came to everyone's notice in Russia first of all through a blog and then through his open and courageous stance in the opposition movement, which remains.

And on the far left, Dr Mark Galeotti, who is the academic chair of New York University's Center for Global Affairs. He's a Soviet and Russia, post-Soviet

expert, but he's also a considerable expert on global crime. He founded the journal *Global Crime* and he's now writing a book, an extremely ambitious book, on global crime both in history and now.

So let's turn to our panel. They are going to speak for five or six minutes, then it's over to you. Let's start, if we may, with Alexander.

Alexander Lebedev:

Good afternoon. John, thank you very much. There's a payback. I have to admit *Financial Times* is my most beloved newspaper, but I just picked up the rumour yesterday that that if, for example, the *Financial Times* journalist would be moved to *Daily Mail*, they will do the *Daily Mail*, and if it's done vice versa – no, no, no. The *Daily Mail* people would do *Financial Times*, but the *Financial Times* people would not do the *Daily Mail*.

John Lloyd:

We're not clever enough.

Alexander Lebedev:

That's right. In fact I was analysing yesterday the G20, still hoping that President Putin would come up with an initiative to the G20, since Russia is now heading the G20 until next autumn, with an initiative to organise an international body with special powers to fight global corruption. Alas, it hasn't been achieved. I think G20 was uselessly spending time on Americans criticizing Barroso, Barroso sort of – I'm more on Barroso's side, I think the Europeans will be able to overcome their problems and nobody can doubt that Europe has achieved prosperity and competitiveness and strength of institutions in a greater way were it not to be a united Europe. And I don't think it needs Russia's help, financially. Russia has exported a lot of money into Europe, in a legal and illegal way, both. There are estimates from \$500 to \$700 billion US dollars.

But contrary to what people would say, I don't think corruption is mainly a Russian problem. It is a global problem. I have my doubts, for example, whether sub-prime debt in the United States was just a market calamity. I have my doubts about whether it has been possibly a man-made fraud rather than anything else. And when I listen about the rogue traders at UBS, or Société Générale, or JP Morgan, I have my doubts whether the Ministry of

Justice and FBI can investigate those things, or European law enforcement agencies. That is not to say that Russia is not unique in the corruption practices. But I was reading yesterday the recent EC Directive about illegal proceeds, and it starts from a figure that in 2011, the amount of illegally misappropriated money for various types of crime, from fraud and embezzlement to corruption and drug trafficking, amounts to \$1.2 trillion. Just imagine, if you say, assume that on a yearly basis that is the same figure, then in ten years recently you would have a figure of \$12 billion – \$12 trillion, I'm sorry, which is a quarter, roughly of the global GDP a year. Just compare it to the volume of the derivative trading, which Warren Buffett once said is the biggest instrument for fraud, which did not preclude Warren Buffett of using derivatives during the crisis and making a lot of money on it. This is \$600 trillion, which is 25 times bigger than the world's GDP.

Well, Russia plays a big role in it, though the EC Directive says that the Italians are big contributors as well, \$150 billion last year. Just imagine that amount of money sitting somewhere beyond any control from central banks, or politicians even being aware of that. And if you add to that period before ten years I'm using for my rough calculations, then probably we are talking about tens of trillions of US dollars, amounting to the roughly world GDP a year, with the possibility of attacking any currency in the world or any bond issue. And it dwarfs, actually, the Italian or Spain problem. And nobody is discussing that at the G20. We intentionally did not produce a paper which we wanted to sign by world leading politicians, journalists, publishers, and leaders of the public opinion at this G20, because we thought maybe it is clever to move it to the next meeting in St. Petersburg, since it will coincide actually with the Russian and the global corruption problem.

So the main topic I've been advocating in the recent few months is actually the political leaders of the world, say G20, not stopping at just organizing a commission to eradicate corruption, which has been proclaimed in Seoul in 2010, or an American initiative which was called the anti-kleptocracy initiative. God knows what the Americans are doing, but it has been proclaimed a year and a half ago. OECD, with its anti-corruption convention, which is a good thing, which Russia ratified. But it's not a working mechanism. The UN, with its anti-corruption convention, which Russia ratified in 2006 when I was still a member of parliament, but it didn't actually ratify the – Chapter 20, which states that every bureaucrat has to declare not only its income but also its funding. So my point is pretty simple: that unless we have a special international body with plenipotential – apparently, my view, it has to be European, attached to the EC with American, Russian, Chinese and African

participation. We do not have any opportunity, because out of this \$1.2 trillion, and again I'm quoting the official figures from EC, there's something like 0-point something, which has been dealt with by, for example, Bernie Madoff being jailed or Allen Stanford receiving 110 years in jail. I don't even want to quote the names of Russians who have embezzled multiple banks for tens of millions of US dollars, sitting in this country and trying to find asylum. I have to admit that the attitude of the government and of the public opinion in this country has changed since [incoherent] has been sentenced, since the governor of Nigeria was sentenced for corruption. I even heard some pronouncement from the British government that the people who are trying to seek asylum who are crooks and fraudsters would actually have to feel the force of the justice, of the British justice against them, quite recently.

But I think still that it does not suffice, that we in Russia, sort of from this Soviet point of view, from Navalny anti-corruption campaigning or *Novaya Gazeta* investigations, or *Vedomosti*, or [incoherent] – it's not enough. We have really to unite forces and probably – which I will be criticized, back at home, well we've been criticized for, actually, apologizing to the local head of the [incoherent], and him apologizing to us. But I still think that it is a great precedent for Russia where people would never, being somewhere in the top of the power, apologize to a newspaper which is in opposition, and the newspaper would not admit it has been also using unnecessary motion. S

o to close my – I hardly call it a speech, a boring exercise in anti-corruption campaigning – I would probably ask you to support an idea that maybe it's not time for mutual recrimination at the political level between various countries. And whenever the laughs, and the kind of, what I hear from journalists in *Novaya Gazeta*, Lebedev is definitely poking fun into the story when he thinks that Putin is able to confront corruption, for example, in the banking sector.

I made a recent point in a lecture on my internet site, which has been visited by 57,000 people – it was a boring lecture, I don't advise you to have a look at it, but the interesting point, that I do not think that Putin has anything to do with the \$100 billion embezzled from western banks to Russian banks in the recent six years. It's just the crime is very complicated. There are not enough people in the law enforcement agencies. Definitely there are a lot of rogue officers who are protecting these guys. But I think it's time we stand up against it and call global corruption a form of apartheid and use the same methods which were used by the international community against apartheid in South Africa at a time we all remember. It was not very long ago. Thank you very much.

Vladimir Ashurkov:

Good afternoon. My name is Vladimir Ashurkov. Let me say a few words about myself. For the last five years I've been a top manager at one of the largest Russian investment holdings, called Alfa Group, but throughout my life I've been interested in politics and government. About three years ago I started helping Alexei Navalny, first in investigating specific corruption cases, then more and more on strategic and organizational issues. Due to my seemingly innocuous hobby, like this, I had to resign from my job at Alfa earlier this year, so now I'm devoting more time and energy to these civil activities. I became the executive director of the Foundation for Fighting Corruption that Alexei established, and this foundation has become the legal and organizational platform for a few projects that Alexei and his team runs. One is monitoring graft and corruption in government procurement. Another one is recruiting and coordinating observers at elections, at various levels. Another one is information projects so that we can spread the word about the corrupt practices of the current government. So, in essence what we do is fight the unfortunate situation when Russia has found itself, when its government and authorities are autocratic and corrupt.

We realize that this regime will not go away by itself, so our strategy consists of two parts. One is creating points of stress for the system so that people and the business and the political elite which is intertwined in Russia is compelled to change, and we do it on several fronts. One is mass protests. Another is investigating and making public the specific cases of corruption in the government. Another one is trying to organize this popular unrest in some sort of organization, possibly a party at some later stage. And another part of our strategy is providing people with a reasonable, good alternative so that they would have an answer to the question, if not Putin, then who? So this is what we do.

A couple of words on the current political situation: we see over the last six months a big agitation in the Russian society, a lot of mass protests. And mass protests are of course an important part of how the society can influence the authorities, but I think it's just the tip of the iceberg. And no less important are the tectonic processes that happen in the depth of Russian society when the public discontent with the inefficiency of the government is growing. People are not satisfied with the appalling state of hospitals, education, infrastructure. But people who live in the regions, who don't have that much access to internet, don't necessarily link it to the political corruption in Russia. But I think this realization grows, and people understand more and more than the governor who steals the money earmarked for road

improvement is – the central government who appoints him turns a blind eye towards this corruption because on the election day he can deliver falsified results for the party of power. So the situation is evolving. We've seen some wins, some people from the business and cultural elite are becoming more and more critical of the authorities. At the same time, the authorities are attempting to crack down on the opposition in various ways. If you follow the events you know what I refer to.

Why we're here: naturally the change in Russia is up for Russians to effect, and I have no doubt that inevitably this autocratic and corrupt regime will change as a result of this public discontent. It's kind of pointless to say when it's going to happen, in six months or in six years, but I think it's just the inevitable evolution of the Russian society. But I think Britain has to be aware of the fact that the corruption in Russia is being exported into your own turf, into your own territory. And let me just say three issues on which this is happening. First, the Russian companies, which are in many cases state-controlled, bring the corrupt practices which they are using at home into your home markets. If we take for instance VTB Bank, which is one of the largest Russian banks on several grounds, it's one of the most corrupt financial institutions in Russia. But it's a significant player in the European financial markets with listing on the London Stock Exchange and presence in the UK. Another aspect that is affecting British interests is of course security. The corruption permeates the Russian security services as well and there is of course a danger that sensitive information and materials can fall into the wrong hands. The third point is that these ill-gotten gains of Russian officials or of cronies of the current people in the administration, they bring their money to Britain, they buy property, they buy companies, and with this money comes the corrupt practices that people are used to at home.

So we encourage you to fight against corruption not because it's helping Russia, that's sort of a positive side effect, but because it affects your own interests and we believe it would be to your benefit. Thank you very much.

John Lloyd:

Vladimir, thank you. Our last speaker is Mark Galeotti.

Mark Galeotti:

Thanks very much. Well, very difficult to follow two such presentations, one very much stratospheric and one very much programmatic. So let me perhaps

just stop and pull back a little, and we'll ask, why does corruption happen? I mean, it's easy to think of it as being essentially because of the individual infraction or the banality of it – but it's more than that. It's actually a tool of state building. It's one of the classic ways in which you create, constitute, and bind to you national and local elites. And particularly in the context of Russia, it's been used through the 1990s and since in a process of effectively state re-building, after a lot of the anarchy that followed the collapse of the Soviet Union.

The reason I dwell on this is because I think it's important to stress how much corruption has therefore become if not the, certainly a central strategy whereby the Kremlin governs Russia, controls Russia. Now, in that context, therefore, it's therefore a question of, well is it that they don't realize the problem? And the answer is, no. There are people within the central elite who are well aware of the problem, just as ordinary Russians are aware that – I'm always struck by how much a coffee in Moscow costs. In part that's precisely because the place I'm buying that coffee from is having to pay kickbacks to health inspectors and who knows who else. But also, even from the state's point of view, given that this is a regime which has put so much effort, for example, into building up its military, it can't exactly be reassuring when the main military prosecutor, Fridinsky, says that 20 percent of the entire state defence order gets lost through theft, embezzlement, and kickbacks. That's equivalent – just that is equivalent to the entire amount of money that the government spends on unemployment benefit and job creation in a year. And that's just from one particular source.

The problem is, though, what do they do about it? Now for a long time, times have been good. The Russian economy has been sufficiently buoyant that in a way they could afford to pay people off. Pay everybody off. Now, although the Russian economy is in better shape than many, now times are tighter. But also, I think it's precisely that we're now beginning to see this level of unprecedented public protest, which are putting I would say very much the focus on the issue of corruption. At present, however inspiring, laudable the protests that we've seen, particularly in Moscow, they have not yet had real traction on the country as a whole. And therefore it's possible for members within the elite, particularly the Siloviki, the men of power within the sort of security and intelligence community, to largely dismiss this as just effete hipsters who have had their little day in the sun, but who cares about it.

However, I would suggest that corruption is going to be one of the critical issues, as we've heard, which will allow a more comfortable middle-class protest movement to reach out to ordinary Russians. And where we have

seen successes, in some mayor elections in locations like Yaroslavl, it's precisely because the protest movement or figures within it were able to campaign, not on big national issues, not on 'Russia without Putin', that has no real meaning to most Russians, but actually on grassroots political concerns. This is why the roads don't get built. This is why the schools and hospitals are crumbling – because of kickbacks, because of corruption, because we have an elite that just simply sloshes money around each others' pockets without concern for the ordinary Russians. It therefore is one of these potential rallying cries which can actually unite a political sort of movement against the current regime, a political movement which after all otherwise cuts across nationalists, communists, radicals, liberals, you name it.

So from the Kremlin's point of view it becomes, well what do you do about it? Broadly speaking there are three – and this is very much caricaturing, in the interest of speed – three strategies. You can try and re-legitimate yourself, basically fix the problem. I'll be honest, I don't see the current regime suddenly having some kind of Damascene conversion in deciding that corruption is just so important that all of our old friends have to go and get locked up. If there was one tiny little window for re-legitimation, it was last year. And then when they decided just to inform the Russian public, oh by the way, Putin's coming back and we'd sorted this a long time ago, didn't we mention it? I think at that point that window closed pretty conclusively.

The second approach is co-optation. Buy more people off; buy more elements of society off. Maybe once upon a time that would have been possible, but again, the money isn't there. If you are going to continue to pay off the elites you currently are and try and find new people whom you can reconcile through – whether it's direct enrichment or just paying monies towards projects close to [inaudible], that's going to take a lot of money. I mean, already Putin has basically pledged monies that frankly the Russian government can't afford. So it's hard to see that as a sustainable approach.

The third one is unfortunately coercion. The third one is if you deal with protests by cracking down on them. And maybe you'll then have an anti-corruption dimension to it. I wouldn't be surprised if we soon see a whole slew of new arrests and trials. However, it will probably be conveniently enough individuals who happen to be out of favour with the current regime. I mean this is the great thing about a system in which corruption is so endemic: most people will have skeletons in the closet. You just decide whose closets you're going to rummage through.

So put all of this together, and as you can tell it's a thoroughly heart-warming and uplifting tale. But actually, in the longer term, I think it is uplifting. I mean, I think we are beginning to see a real shift in attitudes within Russia, one that is actually questioning long-established habits of statecraft and governance which pre-date post-Soviet Russia and frankly pre-date the Soviet Union. But we won't go into a full historical chronicle there. But in the short term, it's precisely because, unfortunately I believe, the regime on the one hand cannot afford to give up on corruption. And at the second, it cannot afford to allow the protest movement to continue to use the campaign against corruption as its rallying cry. It is, certainly in the short term, I think it's unfortunately presaging a fair amount of trouble, a fair amount of, well, repression in Russia.

But – and this is said from the point of view of someone who lives a long, long way away and therefore doesn't have to worry about actually living through it, and sort of in that discomfort – nonetheless, in the long term, from this turmoil, I think very positive developments will take place for Russia. Thank you.