Behind the ouster of Russia's Berezovsky

by Konstantin George and Rachel Douglas

On Nov. 4, Russian President Boris Yeltsin lifted restrictions on foreign ownership of one of Russia's most valuable assets, its oil companies. The next day, he fired financial tycoon Boris Berezovsky from the post of deputy head of the Security Council. The two decrees, issued just after Yeltsin met with the International Monetary Fund's (IMF) chief enforcers within the Russian government, First Deputy Prime Ministers Anatoli Chubais and Boris Nemtsov, magnified the turmoil, into which the global financial and economic collapse has thrust Russia.

Berezovsky is one of the top dozen financial-corporate oligarchs in Russia. Last summer, with backing from Prime Minister Viktor Chernomyrdin, he led and lost the fight to prevent international speculator George Soros (in partnership with Vladimir Potanin's Oneksimbank) from acquiring the Russian telecommunications giant, Svyazinvest, at its privatization auction. Chernomyrdin's attempts to postpone the Svyazinvest sale were overruled by Chubais and Nemtsov, who prevailed by going over his head, to Yeltsin. Berezovsky's business partners submitted a losing bid.

In this latest round of political brawling, it is plain that the pressure of the international financial crisis is driving the clan warfare at the top of the Russian power structure. Berezovsky himself charged on Nov. 5 that the entire package—his ouster and the permission for foreign investors to purchase up to 100% stakes in Russian oil companies—had been engineered by Chubais during the latter's visit to London during the week of Black Monday, Oct. 27. Chubais was a Bolshevik, a hypocrite, and an agent of Oneksimbank, Berezovsky said, and Oneksimbank was about to bid in partnership with British Petroleum, to purchase the Rosneft oil company. The oil decree, *Kommersant-daily* wrote on Nov. 6, was "a complete victory for Anatoli Chubais."

The shock waves from the global financial crash, however, are wrecking Chubais's ability to buy social peace with cash infusions from the IMF and other foreign borrowings, while he delivers Russia as an "emerging market" to supply the international financial bubble with more loot. The week of Black Monday shook the political complacency and smugness of many in Moscow, leading to new desperation moves on the part of the regime, but also to ever more open discussions, that there must be a better way to run an economy.

Economist Lyndon LaRouche has received extensive press coverage in Russia, for having forecast the crash. The opposition daily *Pravda Pyat'*s Oct. 30 article by Prof. Taras Muranivsky, which presented LaRouche's diagnosis of how the $100 trillion derivatives bubble will annihilate the international financial system (see *EIR,* Nov. 7, p. 12), was followed by Muranivsky's commentary in the weekly *Ekonomicheskaya Gazeta* of Nov. 7, "The Thirty-Year World Crisis, into Which Russia Is Being Dragged." Muranivsky outlined LaRouche's step-by-step instructions on how governments should act to bankrupt the speculators, and cited *EIR'*s report on the evaluation by a senior European analyst of Russian affairs, who differentiates between the Russian financial oligarchy, which is ready "to take the money and run," and the serious people in Russia, who are looking for a way out of the crisis.

The Russian press has also given significant coverage to the scathing attacks on Soros and other speculators, by Malaysian Prime Minister Dr. Mahathir bin Mohamad. The Oct. 31 issue of *Ekonomicheskaya Gazeta* devoted several pages to the worldwide battle against currency speculators. Its package included the first full translation into Russian of Mahathir's speech to the September IMF meeting in Hongkong, as well as an article by Muranivsky, "After the Explosion of the Financial Bomb in Hongkong," in which he analyzed the importance of the Mahathir speech and the attempt to create an Asian Monetary Fund. On Oct. 30 in the daily *Finansovyye Izvestiya,* economist Vladimir Popov warned that an outflow of short-term capital, such as had provoked the rapid devaluation of Southeast Asian currencies, was likely to occur in Russia soon, too, because alleged "good macroeconomic indicators," like low inflation, a positive current account balance, etc., were no guarantee against attacks on a country's currency. Popov noted that the daily volume of currency transactions, worldwide, exceeds $1 trillion, or 50 times the total volume of international trade.

State finances hang by a thread

The events warned of in such forecasts, are already taking place. The assault by Soros and the other speculators against Asian currencies sent heavy after-shocks into the fragile Russian financial markets.

Shares on the Russian Trading System (RTS) lost 17.4% during the week of Oct. 27. Wire services reported jitters among Russian brokers, about whether there was even sufficient liquidity in the market to settle up the trades made during that week. "We'll know some time in the middle of November who is going to go bust," one broker was quoted. Other Russian *nouveaux riches,* who name their companies things like Montes Auri (Mountains of Gold) or Alfa (after the Alpha-people in Aldous Huxley's *Brave New World*), talked as if the worst were over. *Finansovyye Izvestiya* of Oct. 30 quoted Maksim Shashenkov of Alfa-Kapital, who believes that the "correction" on the financial markets of industrial countries will be followed by a growth of demand for Russian securities. Russian share prices will rise, he said, followed by a period of calm; November will be a dull month on the Russian stock exchange. One week into Shashenkov's "dull month," the RTS experienced drops of 8.3% on Nov. 10 and 9% on Nov. 12.

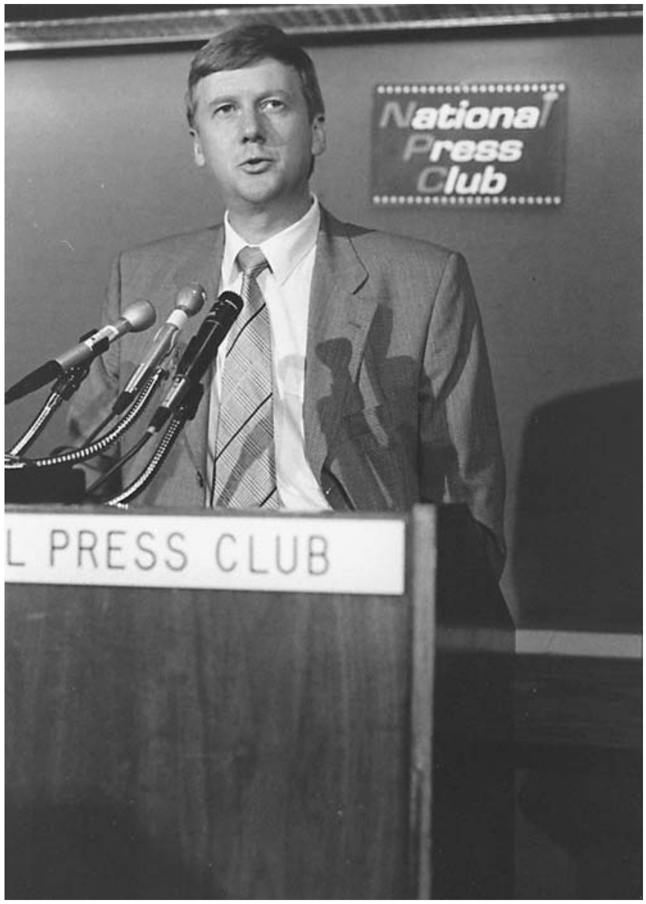
When the RTS temporarily rebounded from its biggest one-day slide (down 19% on Oct. 28), Russian government officials, too, had been singing the tune of emerging-market suckers everywhere. On Oct. 29, Chairman of the Federal Securities Commission Dmitri Vasilyev told the third All-Russia Conference of Professional Stock Market Participants that Russia was a winner: "We assessed the situation correctly, which has made Russia more competitive compared with other countries." In a Russian yuppie's version of "the fundamentals are sound," Chubais said in London on Oct. 28 that Russia's stable currency, low inflation, and recently rising foreign-exchange reserves, "allow me to say that the current economic situation in Russia is safer than that in Southeast Asia."

If that is not true, which it is not, Chubais's schemes go up in smoke. The attractiveness of Chubais to Yeltsin depends on his satisfying the President's pragmatic notion of how to keep state finances going, three months at a shot. The cumulative destruction of Russia's tax base after six years of IMF-designed "reforms," makes it impossible to finance a state budget with ordinary revenues. To keep the budget functioning, even at brutal austerity levels, Chubais depends on:

1. Quarterly financial injections from an IMF credit line, known as "tranches"—money which goes straight into the black hole of current operating budget outlays, to pay off soldiers, workers, and others, enraged after months of receiving no wages. In the summer, as part of the package whereby Chubais and Nemtsov secured the green light for the privatization of Svyazinvest and Norilsk Nickel by Soros and his allies, Russian state finances got another rescue payment, in the form of the first-ever multibillion-dollar World Bank loan to stabilize the Russian budget.

2. The sale of three- and six-month Treasury bills, known by the Russian acronym GKO, with high interest rates. Already, over 25% of budget spending is for debt service! A single jolt to the GKO market, could bring down the entire house of cards of Russian state finances.

The Russian debt market is composed of about $58 billion worth of GKOs, of which at least one-third are held by foreigners. On Nov. 10, the Russian Central Bank announced emergency moves to keep investors in the GKO market and protect the ruble: the Central Bank's refinancing rate was raised from 21% to 28%, and the ruble fluctuation band expanded to 30% around a new fixing of 6,100 rubles to the dollar (6.1 new rubles, after the redenomination pending for Jan. 1, 1998). The bank had reportedly spent $2 billion of its



First Deputy Prime Minister Anatoli Chubais, the shock therapy fanatic who, some observers forecast, will be ousted in the new year, as discontent grows with the regime's bankrupt economic policies.

$25 billion reserves, trying to defend the ruble at a higher rate. According to the London *Financial Times* of Nov. 11, "South Korean and Brazilian investors are heavily exposed in the Russian debt market and may need to repatriate funds to meet margin calls at home." During the first wave of the international hedge funds' assault on Asian currencies, in July and August, South Korean and other Asian banks had jumped into the Russian market in an attempt to replenish their drained liquidity positions, by taking advantage of the exorbitant interest rates paid on three-month GKOs. The exact figures are not known, but Korean and other Asian GKO holders already began to pull out on a large scale, with the October crash.

On Oct. 31, Chubais's other income spigot was turned off by the IMF, which declined to issue the latest, $700-million tranche of its credit, citing poor tax collection. For the first nine months of 1997, tax revenues were at only 60% of the budgeted level, and covered less than half of originally budgeted spending. Poor as they are, those receipts included a huge one-time infusion provided when the natural gas monopoly, Gazprom, paid its tax arrears.

Privatization under fire

The stock market crash presents Chubais & Co. with a new dilemma. The Russian government is desperate to get on with the next round of privatization of state companies, its remaining major source of revenue. Slated for sale before the end of this year are stakes in five oil companies. Rosneft and another 25% of Svyazinvest go on the block in 1998. Going ahead with these big sales is a dicey proposition in a crashing market. "The people who are willing to buy these assets will not be so numerous as they were before," a J.P. Morgan economist was quoted in the *Financial Times,* so Russia will get even fewer peanuts for the jewels of its industry.

Chubais and Nemtsov convinced the Russian President to proceed. Nemtsov confirmed that Yeltsin's Nov. 4 decree, lifting the 15% ceiling on foreign ownership of Russian oil companies that was in effect since 1992, means that foreign investors may now take over 100% stakes in these firms. Yeltsin took six oil companies off the list of companies protected from *any* foreign ownership for national security reasons, earlier this year.

As much as $70 billion foreign investment in Russian oil projects has been discussed, but the government hopes to raise a quick $4 billion from oil company sales. Rosneft, the biggest, is supposed to go for $1.5 billion. Besides the British Petroleum-Oneksimbank team, alleged by Berezovsky, Rosneft chairman Aleksandr Putilov told reporters that Gazprom (which just raised a $3 billion credit from Crédit Lyonnais and others in France) and the Anglo-Dutch Royal Dutch/Shell group are considering a joint bid for the company.

Political explosions in store

What is in store for the weeks ahead? At "only" $100 billion total capitalization, the Russian stock market might seem to be a tiny spot on the world financial map, but its collapse and the vaporization of Russia's state finances can ignite economic, political, and social explosions with a worldwide impact. One forecast came from Pavel Felgenhauer, military correspondent of the daily *Segodnya,* with whom *EIR*'s Mark Burdman spoke on Nov. 11.

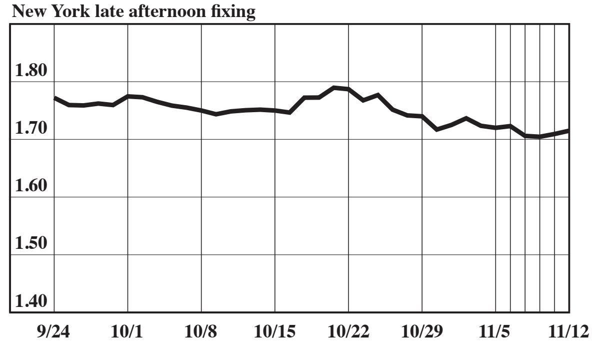
The growing impact of the international financial crisis on Russia situation virtually ensures a major political confrontation by early next year, said Felgenhauer. "I very much recall what you from *EIR* have been telling me about the global financial crisis," he said. "By January, the situation will become absolutely clear to the rank and file, when the promises that they would get their wage arrears will not work. The fact is, there is no money. An equivalent of $10 billion would be needed, and that amount is impossible, all the more so because of what is happening outside Russia, internationally."

Felgenhauer forecast that Chubais "will be kicked out in the new year. Maybe that will be our present for New Year's Day, or for Russia's Orthodox Christmas, on Jan. 7. Chubais, as finance minister, will have to pay the political price."

Currency Rates

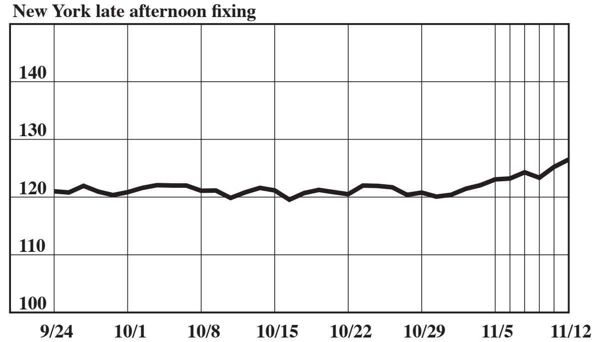
The dollar in deutschemarks

New York late afternoon fixing



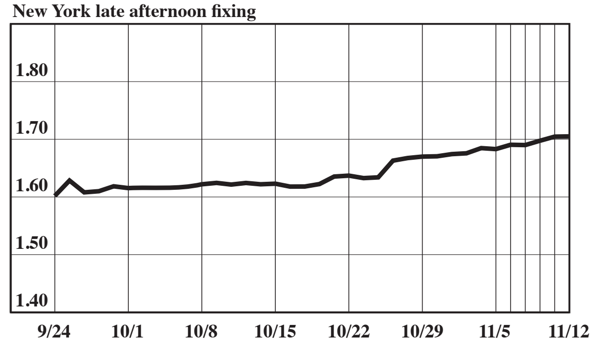
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing