

Turbulence ahead: disputes within the Russian ruling elite are gathering force

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The last month has seen a public confrontation between Igor Sechin, the president of Rosneft, and Arkady Dvorkovich, the deputy prime minister, concerning the consolidation of the energy sector. This is the latest in a series of disputes between the Kremlin & businessmen from Putin's inner circle on one side, and the government & Prime Minister Medvedev on the other. These disputes have been wide-ranging in nature, concerning economic policy, the scope of competency of individual members of the elite, but also the 'tough line' adopted by the Kremlin since Vladimir Putin's return to the presidency. The Kremlin, which is still the main decision-making centre in Russia, has been effectively forcing its opinions through in its short-term disputes with the government. However, a new element in the ongoing conflicts, which is unfavourable to President Putin, is their exceptional strength, their much more public nature, and their wide range (which has included criticism of the president himself) and ever-changing context, especially the worsening socio-economic situation. These conflicts have been overlapping with signs of dissent among Putin's business supporters, and their declining political willingness to support the leader unconditionally. The Kremlin's response to the unrest consists of intensifying efforts to discipline the elite and weakening those groups in which Vladimir Putin has limited confidence. The elite's support is crucial to the stability of his government; to maintain this support, the Kremlin is ready to introduce restrictive and repressive actions against both parliamentarians and government officials. In the short term, such a policy will force the Kremlin's supporters back into obedience, but fears of a further increase in repression are also starting to be expressed on the sidelines.

Medvedev in dispute with the Kremlin

After Vladimir Putin's return to the Kremlin, a worsening of the public disputes and conflicts between the president & his supporters and Prime Minister Dmitri Medvedev & selected members of his Cabinet became apparent. These disputes may conventionally be divided into four groups: matters of competency, the economy, ideology and prestige.

The **disputes over competency** are related to the Kremlin's 'recovery' of the powers which were delegated to the Government during Putin's time as prime minister. The first public dispute between the government and the Kremlin was initiated by the establishment in June

of the **President's energy committee**¹, which not only duplicated the functions of a similar government commission, but also assumed broad powers to regulate the energy sector. Medvedev and the deputy prime minister for energy Arkady Dvorkovich (head of the government commission) particularly objected to the extensive competency given to the presidential committee's secretary Igor Sechin (president of Rosneft and head of Rosneftegaz's board of directors). While working on the committee's competency, the government managed to limit the secretary's formal powers; but this was not equivalent to limiting Sechin's decisive *de facto* influence over the energy sector.

Another controversy over competency was the change in the **procedure for appointing the heads of large companies** in which the state holds shares. In August, a decision by President Putin strengthened the Kremlin's impact on how these positions were staffed: it

gained the formal right to approve or reject candidates put forward by the government for several major companies' boards of directors². The way in which these positions were filled clearly shows that Putin does not intend to give up his right to take key personnel decisions. Putin appointed Sechin chairman of the board of directors of Rosneftegaz (an important state company

¹ The RF President's Commission on the Strategic Development of the Fuel and Energy Complex and Environmental Security was established on 15 June by a decree from President Putin. For more, see Ewa Paszyc, 'The "energy tandem": Putin and Sechin control the Russian energy sector', *Eastweek OSW*, 20 June 2012.

² Formerly in the sole discretion of the government; the Kremlin only had this right with regard to selected 'strategic' companies. For more, see 'Priamoye prezidentskoye upravleniye', *Kommersant*, 22 August 2012.

³ See 'Sechin mog poluchit krieslo v 'Rosneftegazye' bez vedoma Medvedeva', *Vedomosti*, 15 August 2012.

⁴ The presidential decree of 22 May. For more, see 'Privatizatsya po siechinski', *Vedomosti*, 28 August 2012.

⁵ See 'Pismo Dvorkovicha prezidentu o privatizatsyi v TEK-ie', *Vedomosti*, 24 August 2012.

Since Vladimir Putin's return to the Kremlin, the conflicts between the president and Medvedev's government on matters of competency, the economy, ideology and image have become apparent.

which controls Rosneft and 10% of Gazprom) on his last day as Prime Minister (6 May). Medvedev's government, which was appointed the next day, was most probably not informed of this decision, as it held consultations on the position for some months afterwards, with Medvedev himself signalling that he will prolong the process for nominating Sechin, with whom he is not on the best of terms³.

The **public dispute over economic policy** between Deputy Prime Minister Dvorkovich and the Kremlin was rooted in the state's policy on the electricity sector. The concept for consolidating this area, as presented by Igor Sechin, was based on the acquisition by Rosneftegaz (which Sechin controls) of a number of large companies in the power sector – the power grid holdings FSK and MRSK; RusHydro, the largest grouping of hydroelectric power plants; and the InterRAO power company. In addition, Rosneftegaz has started talks to take over several regional generating companies from Viktor Vekselberg's KES holding. Rosneftegaz is prepared to expand into the electricity sector: President Putin's decree in May gives the company the right to participate in the privatisation of the energy sector⁴. Sechin's plans were again **opposed by Deputy Prime Minister Arkady Dvorkovich**: on 10 August he sent a letter in the government's name to President Putin, wherein he warned that the concept Sechin proposed for consolidating the electricity sector under the aegis of Rosneftegaz would lead to an effective reduction in state control over the sector, and would require excessive financial expenditure. As an alternative, Dvorkovich called for the money Rosneftegaz makes to be used for the capitalisation of the power companies, but without putting them under Rosneftegaz's control. Dvorkovich's opposition can be seen both in terms of the merits of the dispute (a vision of a more decentralised economy), as well as an attempt to limit Sechin's role as the most influential player in the energy sector. However, Dvorkovich and the government failed this time as well. The deputy PM's letter to the President remained unanswered; the media stated unofficially that it had been sent on for "further consultations", to be coordinated by Sechin's longtime collaborator Anton Ustinov, who is currently an advisor to the president. Putin himself is supposed to have ordered an acceleration in the capitalisation of RusHydro, in accordance with Sechin's plans. Dvorkovich had the letter published in the press⁵, thus making the conflict public, but this decision should in fact be seen as a manifestation of his helplessness.

Differences in ideological matters between Medvedev and Putin & his entourage have also surfaced, which has led to a *de facto* clash between the Kremlin and the government. These differences primarily relate to the Kremlin's 'tough line' on domestic policy which has been observed since Putin's return to the presidency. The government has opposed individual legal changes initiated by the Kremlin and aimed at opposition and social activists, including an amendment to the act on the protection of children (which could effectively lead to tightening control over the Internet), and an act prohibiting the advertising of alcohol in the media (which would be a blow to independent media). Medvedev also distanced himself from a bill (which Putin publicly supported) prohibiting government officials from possessing property and bank accounts located overseas. Medvedev saw this plan as a deterrent to discourage entrepreneurs from working in the administration, which would not be conducive to strengthening the rule of law. In addition, Medvedev criticised the prison sentence handed down to the members of the band Pussy Riot, noting that a suspended sentence would have been more appropriate; this also contrasted with Putin's assessment of the case.

Finally, controversy has arisen in relations between Medvedev and the Kremlin which demonstrates their **rivalry in matters of prestige and image**. Medvedev's government has begun to receive public and ostentatious criticism from the President for inefficiency. At a meeting at Putin's residence in Sochi on 18

September, which was held in the absence of Prime Minister Medvedev, government ministers were severely scolded for failing to implement the President's decrees, as well as for "systemic failure". Another blow to the image of Dmitri Medvedev as the formal chairman of United Russia was the

Dmitri Medvedev's 'flagship' initiatives have been derailed one by one, and the PM and his supporters have been the subject of campaigns discrediting them.

party's repeated manifestation that it considers Vladimir Putin to be its true leader. During voting in parliament on projects where Medvedev's government opposed the Presidential Administration, the party unequivocally came down on the Kremlin's side, ignoring the opinions of the government and the Prime Minister⁶. Finally, another blow to Medvedev's image has been the gradual turning away from his 'flagship' initiatives: the introduction of the government's strict control over the election of governors (Medvedev had initiated the restoration of the direct election of regional governors); the extension of the retirement age for civil servants to 70 (reduced by Medvedev to 60); and the restoration of the change from summer to winter time (which had also been eliminated at Medvedev's initiative).

The Prime Minister and his close associates have also become the object of **a campaign to discredit them** which, we may assume, has been sanctioned by President Putin. In July, a story went round the Russian media, according to which businessmen close to Medvedev had been taking over attractive assets and winning lucrative tenders⁷. The mediator in many of these operations was alleged to be the current Deputy Prime Minister, Arkady Dvorkovich. Moreover, another serious attempt to discredit Medvedev as a politician was the documentary 'The Lost Day', posted online in August, which tells the story of the war between Russia and Georgia in 2008⁸. The film shows the former president as a politician incapable of independent decision, and the then Prime Minister Putin as being the real decision maker. The media reported that the film was produced by the 5-Kanal TV station (which is run by Yuri Kovalchuk, a close friend of Putin), although the station itself denied this. The film disturbed Medvedev, who after the broadcast stated that he had decided to launch the military operation "on his own, and at the right time". Vladimir Putin gave evasive answers when asked to comment, and did not dismiss the ideas presented in the film.

⁶ See the aforementioned acts on the protection of children and the prohibition of alcohol advertising in the media. The government reported its concerns regarding these laws and delayed their formal approval, but the parliament passed it on 6 July thanks to votes from United Russia. See 'Realny lider Yedinoy Rossii opredelitsia golosovaniyem po dvum zakonoprojektam', *Vedomosti*, 6 July 2012.

⁷ See 'Summa interesov premiera', *Kompaniya*, 23 July 2012. <http://ko.ru/articles/24238>

⁸ <http://www.youtube.com/watch?v=sYQeeFXhOQw>

The first signs of the disputes among Putin's business partners

In parallel with the public polemics between the Kremlin and the government, symptoms of conflicts are beginning to appear among Vladimir Putin's long-standing colleagues within his narrow business environment.

One party to one of the most visible conflicts is **Gennady Timchenko**, an oil trader who is regarded as one of Putin's closest business partners. In the past decade he has risen from being a small intermediary company owner to the world's fourth-ranked oil trader. So far (both during Medvedev's presidency and during the economic crisis), Timchenko's businesses have recorded spectacular expansion in various sectors: exports of oil and oil products, oil processing, and the gas and construction sectors. However, recent events have shown that Timchenko is beginning to lose oil export contracts. Rosneft, a company associated with the ruling elite (and controlled by Igor Sechin), as well as Surgutneftegaz and other companies, have ceased using Timchenko's company Gunvor as an intermediary. Gunvor's participation in exporting Russian oil has dropped recently from 40% to 15%⁹. Managers associated with Timchenko are being gradually removed from Rosneft, which Sechin controls¹⁰. Timchenko may also be running into problems in the gas sector. Gazprom has been forced to reduce output by the decline in demand for Russian gas in Europe, and so it has announced that it will stop making gas purchases from independent domestic producers, including Novatek, which Timchenko controls¹¹. For now Novatek has ensured that the purchase of gas is continuing, but it has also reported that the two companies are holding talks on the matter, and has even threatened to break off its contracts with Gazprom.

So far, **the winner in these business disputes has been Igor Sechin**. He has been running a successful personnel policy: he has sacked managers linked to other lobbyists (including the managers at Rosneft linked to Timchenko mentioned above), and had people close to him appointed to government ministries (such as the energy minister Aleksandr Novak) and the President's Administration (Putin's adviser Anton Ustinov). Sechin and his subordinate structures have

⁹ See 'Druzya possorilis iz-za nefti', *Gazeta.ru*, 15 September 2012.

¹⁰ The last such decision was the removal in September from Rosneft's board of directors of Eduard Khudaynatov, who had previously been president of the company. See 'Sovyet Sechina', *Gazeta.ru*, 18 September 2012.

¹¹ Novatek sells Gazprom 28% of its gas. In addition to Novatek, the reductions may affect Surgutneftegaz and Rosneft. See 'Gazprom zakryt', *Vedomosti*, 10 September 2012.

In Russia, symptoms of conflicts have been appearing among Vladimir Putin's business supporters, including the head of Rosneft, Igor Sechin, and the oil trader Gennady Timchenko.

achieved spectacular expansion in one area after another: he has won a dominant position for himself in the oil sector (as a former deputy prime minister for energy and president of Rosneft, which is now in talks to take over BP's package in TNK-BP), strengthened his place on the gas market (Rosneft is now one of the largest producers of natural gas), and has become secretary of the presidential committee on energy. His proposed acquisition of assets in the power sector would make him the most important player in the field. Such expansion would be impossible without strong support from Vladimir Putin; the basis for this seems to be Putin's desire to balance out the influence of his individual business supporters (previously Timchenko, Arkady Rotenberg and Yuri Kovalchuk had expanded their fields of influence to similar degrees).

Disputes like these surrounding Vladimir Putin are not a new phenomenon; tension and rivalry among different groups in the elite have accompanied Putin's governments from the beginning, and have focused mainly on how the spheres of influence, assets and resources were to be divided up¹². But now in these latest disputes, which have been ongoing since Putin's return to the Kremlin, we see a new quality: an unprecedented openness in the arguments, an expansion of their scope, and a change in the socio-political realities

The new quality of the disputes

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¹² See Jadwiga Rogoza, "The Power Gained, We Will Never Surrender", OSW Policy Brief, October 2009.

which form the context for the conflicts within the elite, and so increase their resonance. Firstly, the public disputes **have reached an exceptional scale** in recent months. Dissent at the Kremlin's 'general line' is being expressed by current members of Vladimir Putin's team – his prime minister and ministers, certain businessmen, experts close to power, and even members of United Russia (although much of this dissent is only uttered informally and anonymously). Some officials have even consciously publicised these behind-the-scenes disputes, as Dvorkovich did by publishing his letter to President Putin in the press, thus appealing to a wider circle of observers. The internet has also fostered the publicising of these disputes.

Secondly, these disputes concern not only business and financial issues, but also ideological and programmatic issues. And so for the first time, **the leader's policies have come in for questioning**. At issue is the particular attitude towards the 'tough line' that the Kremlin has adopted since Putin's return to power, which can strike not only at opponents of the authorities (the opposition, NGOs, bloggers, volunteers and others), but also at the broader

A new element in the disputes around Putin is their unusual tension, their public nature, their wide range (including criticism of the president's policies) and the complex socio-economic situation, which increases the resonance of the disputes.

Kremlin camp itself. One example of this may be the removal of the parliamentary mandate from Gennady Gudkov of the Just Russia party after his active participation in anti-Kremlin protests. The Duma voted to deprive Gudkov of his mandate on suspicion of illegal business activity (in Russia there is a formal ban on any link between functions of state and business activity). Although United Russia's de-

puties voted as directed by the Kremlin, many of them privately expressed concern that a dangerous precedent was being set; it is an open secret that the majority of Russian officials and parliamentarians conduct business activity, which their positions in the power structure allow them to benefit from.

Thirdly, changes are taking place in the context of the disputes within the elite because of **the country's ongoing political and social instability**, and the prospects of economic downturn. Putin's political position is currently weaker than it was during his previous presidential term (2000-2008), while his opponents are mobilised and far more numerous. Criticism of the president is beginning to be heard from groups that have so far been a stable part of his social base; for example, workers at the Ural smelters which are going bankrupt have been criticising Putin, accusing him of policies detrimental to the industry¹³. Putin's poll ratings have been showing a downward trend¹⁴, and a deepening of fatigue with the current president's rule is also apparent: half of the poll's respondents wanted Putin's current term to be his last¹⁵. Experts predict a further increase in social unrest in connection with the next wave of the economic crisis, constantly rising costs and the unsatisfactory state of social security (the health service *et al.*).

The Kremlin's reaction: disciplining the team

In response to the mobilisation of opposition and civic activists, the Kremlin has been taking consistent steps to prevent their activity¹⁶. However, a new element of the Kremlin's strategy is to seek to **discipline its own supporters**, and to weaken these groups in the elite in which Vladimir Putin has limited confidence.

As we may assume, these groups of 'limited confidence' now include Medvedev and his entourage. The Kremlin is starting to treat them as a group that will not necessarily support the president in the event of an escalation of problems, and will rather try to build up its

¹³ See 'Golodayushchiye rabochiye Urala zayavili o niedoverii Putinu', Ura.ru, 9 April 2012, (<http://ura.ru/content/svrd/04-09-2012/news/1052147091.html>).

¹⁴ See the Levada Centre's popularity poll of 23 August 2012, as well as the FOM polls (<http://fom.ru/indikatory.html#?vt=47&s=47>), and from 1-2 September 2012 (<http://bd.fom.ru/report/map/dominant/dom3512/d351201>).

¹⁵ According to the Levada Centre poll of 24 August 2012, 49% of respondents would like a new person to be elected president in 2018 (22% want to see Putin in the Kremlin, 7% Medvedev, and 22% expressed no opinion).

¹⁶ For more, see Jadwiga Rogoza, 'Restrictions versus protests: the government hinders opposition activity', *Eastweek OSW*, 25 July 2012.

own political capital by playing on such instability. In this context, Medvedev's statement ahead of this March's presidential elections may have been a negative signal to Putin, when he admitted that a second round of voting would be necessary (Putin's people expressed confidence that he would win in the first round). Medvedev's statements may also suggest that he has not given up the idea of returning to make a play for the leadership – he has announced on several occasions that he is interested in returning to the Kremlin in the future¹⁷. In addition, the President's trust of Medvedev may have been diminished by the critical response from the latter and his circle to further restrictive initiatives coming from the President's Administration. At the same time, Medvedev's critical attitude can be seen as a signal to that part of the state administration which is most concerned about these changes,

In response to the signs of dissent within the administration, the Kremlin is leaning towards disciplining its own team, and weakening those groups within the elite in whom Putin has limited confidence.

changes, suggesting that he personally favours a more benign course.

In response to public signs of criticism within the ranks of the state administration, the Kremlin has taken steps to **tighten control over the bureaucracy, and act as a deterrent**. This is most likely a signal that the Kremlin has the tools to punish those officials who demonstrate political disloyalty.

These activities include depriving Duma deputy Gudkov of his mandate, as already mentioned, and the draft law which prohibits officials from possessing property and accounts abroad. Gudkov's punishment itself seems to be more than just a signal to the authorities' opponents (the Kremlin is not counting on winning any sympathy that way), but also to their own people – officials, parliamentarians, and businessmen.

The government camp is now showing signs of unrest, intensified by social tensions and a drop in support for the government, as can best be seen in the poorer showing for United Russia in December's parliamentary elections. The weakening of the 'party of power' has already led to the fact that during the regional elections, United Russia's members distanced themselves from the party and ran as independents, and some even resigned from the party in an ostentatious manner. Another factor that may stoke unrest and disputes within the elite (mainly among the businessmen in Putin's circle) is the prospect of the worsening economic crisis and a budget deficit. In view of the negative forecasts, one of the Kremlin's main priorities is now to halt the erosion of support from the elite, as it is exactly the mood of this group – both the narrow circle of the president's trusted colleagues, and the wider public administration – which will be crucial for the stability of Vladimir Putin's government.

¹⁷ Speeches of 25 January 2012 and 16 February 2012, as well as in an interview with *The Times* on 30 July 2012 (granted while Medvedev was attending the Olympics in London).



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