

Vladimir Putin's pyramid of rule: Who really governs Russia?

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In Lithuania and in the West, Putin's system of rule is still often described as a monolith pyramid. In the eyes of society, Putin manages to present himself as an irreplaceable leader-statesman ('tsar', according to the West), solely making key decisions. But such an understanding of ruling processes in Russia is one of the main mistakes which prevents from obtaining a deeper insight into the regime's origins and foundations.

What is a 'collective Putin'?

"The Russian authorities do not comprise a strict vertical structure, ruled by one person. The vertical image is nothing more than a propaganda cliché. The Russian authorities are a conglomerate of clans and groups which compete with one another for resources and power. Putin's role in this system remains the same – that of an arbiter and moderator. And it is an influential one – he, at least during conflicts, has the final say. Since 2000, the style of making political decisions (its formation was influenced by various factors) has been shifting towards that of the USSR's Politburo (political bureau). The creation of national corporations in politics and economy had a huge influence on using this model. One of the 'Politburo 2.0' specifics is that its members almost never hold joint sessions. Second, the formal status of its members does not always reflect their actual influence when making decisions. And third – the 'Politburo 2.0' has amassed a number of elite groups which, to some extent, can be divided into 'power', 'political', 'technical' and 'businessmen'. On the one hand, these groups support the 'Politburo 2.0', on the other – they constantly fight among themselves for influence on the 'Politburo 2.0' and also try get their members inside it," this is how the real Russian

authorities were described in 2012, after Putin became President again, by Minchenko Consulting (a centre owned by Yevgeny Minchenko, a prominent Russian political consultant), which conducted a large study and interviewed over 60 various experts and people in close relations with the authorities.

Many Russia analysts, public figures and even politicians have long been using the term 'collective Putin'. This fact reflects their belief that decisions in the country are not made by one person, and Putin is just a symbol of this ruling system, though, obviously, he hasn't lost his role as an arbiter and moderator.

Insights – not very fresh

The Russian authorities' clan system is described differently by various researchers, who place different people with different groups. Also, the number of groups varies. The number of the most important clans that operate in the entire country is unclear as well. But analysts generally agree that there's a continuous struggle for power inside the Russian authorities which determines the outcome of decisions while Putin is constantly struggling to balance the powers.

But such a description of the Russian authorities is not new. Though mostly forgotten today, but, albeit in an overly simplified fashion, during Putin's first tenure at the beginning of the last decade the entire world was discussing about the continuous battle between the 'siloviks' (representatives of power structures) and the 'liberals' in Russia and the decisions determined by its outcome.

Now, we can safely say that such a description is oversimplified not just because the fight takes place not only between the 'siloviks' and the 'liberals'.

Viktor Cherkesov – the system's example

In 2007, Viktor Cherkesov, leader of one of the clans at the time and Head of the Federal Drug Control Service, in an article in the *Komersant* which created an uproar openly talked about the continuous fight between the 'silovik' clans. His article was probably the first public comment about the 'silovik' clan wars. Back then, Putin significantly limited the powers of both fighting sides, but Cherkesov lost influence the most. In 2008, he was dismissed from the position of Head of the Federal Drug Control Service and assigned as Head of the Federal Agency for the Supply of Arms, but resigned in 2010.

His career took a very unexpected turn – in 2011 he successfully participated in the Parliamentary elections, but not as a representative of the ruling party United Russia, but as a representative of the Communists. Currently, he is Vice Chairman of the Duma Committee for Security and Anti-Corruption.

Cherkesov's example reveals a few aspects of the Russian clan system. First of all, it should destroy the myth that in this system Putin's closest friends and comrades are untouchable. Because Cherkesov, who worked with Putin in Leningrad's KGB office and was considered one his closest friends, was thought to be just that.

What is more, the clan system reveals that Cherkesov, even having lost his former status which was guaranteed by his position, still has sufficient influence. Even though this security services officer turned politician is far from being included into Minchenko's politburo list, he enjoys power which, according to Minchenko, does not always correspond to his status when making decisions.

The best example is Cherkesov's wife, Natalia Cherkesova, who still controls somewhat liberal and influential (given the conditions in Russia) media outlets: the news agency Rosbalt and the Saint Petersburg newspaper *Peterburgskij Chas Pik*. This fact becomes even more significant because one of the most quoted media agencies in Russia, Rosbalt, last autumn saw attempts of getting shut down using a common scheme in Russia. The agency was

accused of violations and the court decreed to revoke its license. But this spring, after the aggression in Crimea, when a new wave of media oppression began in Russia, the Russian Supreme Court repealed the decrees of lower courts and reinstated Rosbalt's licence.

Actual and alleged opposites

Cherkesov's becoming a representative of the Communist Party in the Parliament also clearly shows that in the Russian ruling system the most important role goes not to what party you are in (opposition vs. the ruling party) but what clan you belong to. Rosbalt is a rather liberal media agency not by accident. It should be noted that Cherkesov has long been doing business with one of the main 'liberals' of the current Russian authorities, Arkady Dvorkovich, and other politicians and businessmen – billionaires Zivajudin Magomedov and Suleiman Kerimov.

This example also shows a misconceived opposition between the proponents of 'a strong ruling hand' from the special services and the 'liberals', who come from economists and businessmen. Cherkesov is not the only representative of security forces in the environment of the 'liberals'. Konstantin Chuychenko, a very influential former security officer, is said to be one of the closest friends of Dmitry Medvedev, leader of the 'liberals'. Even though this name may be completely unknown in Lithuania, the Head of the Presidential Administration of Russia Control Department is considered to be a major player in the clan wars.

Prosecutor General, Yury Chaika, and members of one of the most powerful security groups – Sergey Stepashin's clan – can be at least relatively attributed to Medvedev's 'liberals' as well.

But the problem is that calling these groups 'liberals' is not only oversimplified, but also misleading. In the face of the aggression in Crimea, the best example would be that of Vladimir Solovyov, a famous lauder of the power of Russia and one of the main mouthpieces of the Kremlin's propaganda. He is a personal friend of Dvorkovich and his environment's 'propaganda rearward'.

Even Anatoly Chubais, who is often regarded as the godfather of Russian 'liberals', disagrees with die-hard statesmen only regarding tactics, not the

imperialist ideology itself. In 2008, when it was clear that Medvedev will succeed Putin, he criticized Russia's foreign policy only because it 'cost too much to the country'. He received the support of another famous 'liberal', Alexei Kudrin, who said that in the near future foreign policy goals should be adjusted, but only to ensure stable investment.

Therefore, speaking about the ideology of various clans and their representatives, the term 'liberals' cannot be assessed using Western categories: the term partially suits to describe the view of the clans on the role of the state in the economy, but it does not reflect their 'value constituent' – the propagated vision of Russia's place and role in the world.

Main clans

So what are the main clans controlling Russia? As already mentioned, various researchers identify the clans and the connections of Russia's top officials very differently. But the analysis of such studies and Russia's public discourse allows pinpointing the majority of the most influential groups.

In Russia, the most influential clan is considered to be that of Igor Sechin, Head of Rosneft and factual curator of the country's energy, though most frequently presented arguments aren't very sound. Of almost equal influence among the 'silovik' clans is the clan of Sergey Ivanov, Head of the Presidential Administration of Russia, who is known in Lithuania for his passion for basketball and running the VTB League. Ivanov's continuously high influence is now being increased even more by direct relations with Putin (in Russian political jargon it is called 'access to the body').

But the clans of Vladimir Yakunin, Head of Russian Railways, Dmitry Rogozin, Deputy Prime Minister, and Sergey Shoygu, Minister of Defence, are also equal in power (sometimes even more powerful, depends on the circumstances).

Yakunin's already huge influence is being strengthened even more by the cooperation (maybe even merger) taking place in recent years with once one of the most influential clans of Yevgeny Primakov, former Prime Minister, Minister of Foreign Affairs and Head of Intelligence (back then, the clan had two leaders – Primakov and Yuri Luzhkov). Rogozin, who is considered a representative of a military-industrial complex,

greatly increased his power by becoming the informal public leader of a group of rabid nationalists who formed the so-called Izborsk Club. And Shoygu benefits from maintaining his immense popularity in society, though his clan has been considered for some time as equally strong compared to the most influential ones.

Equal in influence is another representative of the military-industrial complex – Sergey Chemezov. Alexander Bortnikov's group (he has been the head of Federal Security Service for many years) has amassed great influence among the so-called 'silovik' clans.

Because Sergey Stepashin stepped down from the position of Head of the Accounts Chamber of Russia in 2013, his clan is usually no longer mentioned among the most influential ones. But Stepashin, currently serving as Chairman of the Supervisory Board for Housing Reform Fund (a state corporation), has maintained personal influence and the influence of his clan when it comes to the distribution of power and national resources. We think that Stepashin, just like Yakunin, illustrates best the assumption that the formal status of some officials does not correspond with their actual influence.

Recently, talks are increasing about the clan of Sergey Naryshkin, Chairman of the State Duma, even though it seemed that this former security officer was more likely to be a member of another clan rather than lead his own.

There are more similar examples. Sergey Sobyenin, former mayor of Moscow, Vyacheslav Volodin, First Deputy Chief of Staff of the Presidential Administration of Russia, and Yevgeny Shkolov, Aide to the President, in charge of personnel policy and anti-corruption (chances are, he is not very well known in Lithuania), ingeniously used the support of other existing clans while not being their most important members and now are often called leaders of their groups. Another person should be added to this newly arisen, but already highly influential group – Alexey Gromov, Deputy Chief of Staff of the Presidential Administration of Russia.

Even though Cherkesov currently acts together with Dvorkovich's people, it doesn't mean that Cherkesov shouldn't be considered leader of the group. In this case, Rogozin could serve as an example. Some time

ago he also appeared to have lost influence completely, but currently is the leader of one of the most influential clans.

It is more difficult to identify the leaders of the so-called 'liberal' clans. The clans don't lack competition, but avoid open fights as much as possible. That's why it is difficult to define their borders. All groups often act as allies rather than reckless opponents. This unity is the reason why often they are simply called the 'liberals'.

And yet this camp is not as smooth as it may look. At least three axes can be distinguished. The first – the most influential person in the Government (thought to be), Igor Shuvalov, First Deputy Prime Minister, and his people. The second axis – Dvorkovich and German Gref, President of Sberbank. And the third equally influential axis is the tandem of Chubais, who is head of Rusnano, and Alexey Kudrin, who currently isn't in a powerful position, but has maintained influence.

Many Russia experts state that the group of Yury Kovalchuk and Mikhail Kovalchuk, billionaire brothers and good acquaintances of Putin, and Gennady Timchenko is another independent centre of power. Minchenko even included them in this 'politburo'. But this assessment is not fully accurate.

First of all, it is difficult to talk about an obvious alliance between the Kovalchuk brothers and Timchenko. Secondly, these businessmen work ingenuously and protect their interests with various groups. Finally, equally close to Putin are the Rotenberg brothers, who have recently been using the state's support for their business with great success. That is why it is difficult to say why we should single out the triangle of the Kovalchuk brothers and Timchenko.

Overall, Russia's biggest businessmen act very differently – some are obviously related to specific groups and are using their protection and lobbyism, while others manage to successfully manoeuvre between numerous groups.

Medvedev – the pocket supervisor of Putin's system

But even such a list of the most influential power centres in Russia (there are many less powerful ones on the federal, regional and department level) should

clearly indicate that Putin is constantly playing the role of an arbiter and manoeuvring to maintain his power.

On the other hand, the system of rule he created guarantees this. "Contradictions have become the source of Putin's power. They allow him to act in several political areas at the same time and maintain reliability despite dubious reasons for doing so," says one of the most famous Russia experts, Richard Sakwa.

"The system is created in such a way that it can't function without Putin as an arbiter," explains Minchenko. Thus here it is important to talk about the role of Prime Minister Medvedev in this system.

The head of the Government is not a member of any group. But he, unlike other members of various groups who are close to Putin, is actually 'the President's man'. He answers only to Putin and is under his personal protection as 'a loyal supervisor'. Therefore, somewhat partially he is an arbiter, but he can't make independent decisions.

Thus one of the biggest strategic mistakes of the West was made in 2008 when due to Constitutional limitations the ruling power changed in Russia. When Medvedev became President, talks began about the nadir of Putin's influence and purportedly a new window of opportunity to improve relations with Russia. We can boldly say that the famous 'reset' policy of Barack Obama was a complete fiasco in the context of recent major global events, and the exaggerated hopes of the West regarding Medvedev's independence turned out to be a misinterpretation of Russia's vertical structure of power.

Current system's roots

The present Russian vertical structure of power has clear roots. Despite frequent claims that a new model of state-market relations which requires new definitions and methods of analysis has evolved in Russia, today the political and economic structure in the country is usually referred to as a state corporation or a system of bureaucratic capitalism.

The main features of such a structure are a closed political system which is resistant to foreign attacks, the merging of political and economic elite and strategic areas of the economy controlled by a

bureaucratic corporation and isolated from the influence of foreign capital. How did such a system form and what guarantees its stability?

The late Russian oligarch, Boris Berezovsky, in 1996 stated that seven bankers controlled about half the economy of Russia. When during Putin's first tenure a new model of government-business relations started forming, the dominance of the so-called oligarchs was replaced by representatives of the political elite who in 2005 ran five largest Russian gas, oil, transport and nuclear energy enterprises responsible for one third of the country's GDP.

Russia expert, Daniel Treisman, called this phenomenon 'silovarchy' (the opposite of oligarchy). The term means a system when former members of power structures have high posts in the civil service and also perform important functions in major state companies and therefore can always employ administrative resources when dealing with business competitors.

Looking at the aforementioned descriptions of Russia's ruling system it may seem that Treisman's formula is only partially correct. First of all, it should be stressed that the created checks and balances system guarantees that if the leader of a group becomes the head of a major state enterprise, he/she does not get full control.

Enterprises like Gazprom, Transneft, Sberbank, VTB Bank, Rusnano or even Rosneft usually have members from nearly all groups. Similarly, in the Government or Presidential Administration all clans compete.

Features of state capitalism

On the other hand, if in Yeltsin's Russia major businessmen had distributed business areas, controlled the political system and weren't interested in the formation of a vertical political system, then Putin's Russia signals a brand new interaction between politics and business, where groups of political elite take over control of major businesses and strengthen the centralization of the political system, because the idea of a strong Russia is the compulsory unifying element of the entire political elite.

In other words, in Yeltsin's Russia and in Putin's Russia the points of intersection of political and business interests are fundamentally different. Putin's policies were aimed at regaining the power from oligarchs – the development of political oligarchic capitalism during Putin's rule took a turn towards state capitalism.

Sure, in such a system private businessmen may retain control of their companies, but only having accepted the main condition – loyalty to the political system. Private businesses cannot become an independent centre of political power, and that is another reason why the supposed group of the Kovalchuk brothers and Timchenko shouldn't be included among the most powerful ones.

In today's Russia, the guarantees of large capital and property rights became a matter of agreement between the state and business. The state ensures the immunity of property rights and balance between different interest groups, and businesses pledge loyalty to the state. This 'arrangement' is called 'the new society agreement'.

Models of safe business and politics can be various: private businesses can benefit from 'hidden' protectionism (for example, the largest Russian oil company, Lukoil) or a company can be run by top-level bureaucrats and politicians (or their groups) even though formally it wouldn't be legal. This is how the second largest oil company, Rosneft, operates.

When in 2004 Sechin (current Deputy Prime Minister) became Executive Chairman of Rosneft, the company was only ranked sixth in the country in terms of oil extraction. But Sechin and Rosneft are considered the ones who ruined the private company Yukos. Rosneft took over Yukos' main extraction centres and became the second largest oil company in Russia. What is more, the Yukos case served as a message to all independent oligarchs and businesses about new rules of the game set by the Kremlin.

The creation of Putin's ruling system was highly influenced by the state's growing interest in the country's economy (for example, its role in the gas and oil sectors increased by 60% during Putin's rule) and the appointing of politicians to the management of state companies or corporations. With the role of the state in the economy increasing, opportunities arise to implement annuity policy and maintain

balance between different groups of the political elite. Putin, serving as an arbiter, has the leverage to manage (control) the competition between different groups of the political elite.

Corruption is the basis of the regime

Another very important guarantee of the stability of Putin's system is corruption. In order to create a loyalty system and decrease the risk of regional separatism, he made a double move: on the one hand, he created the relations between annuity receivers and providers, on the other hand, he drastically expanded the bureaucratic apparatus – from 2000 till 2012 he increased the number of bureaucrats by 65%. The bureaucratic apparatus ensures the control of the political process. The relations between annuity receivers and annuity providers inside the Russian political elite ensures the stability of the regime and loyalty of various elite groups and the entire bureaucratic apparatus. The price of corrupt relations is a sum equal to 16% of Russia's GDP.

The vertical ruling system and well-established relations between businesses and politics means that Russia's political and economic system is resistant to external pressure, but is very susceptible to internal issues: various reallocations of influence zones or intercompetition between elite groups (clans), which is continuous between the strategic branches of Russian economy. This can also mean that friction inside the political elite is increasing.

For example, oil and gas companies, when looking for markets in the West to sell their products, can enter into conflicts with representatives of weapons and nuclear energy industries, who are interested in developing relations with anti-Western countries (e.g., Iran).

Metal industry companies have always been interested in Russia's membership in the WTO because it would help them expand export markets, whereas Russian automotive industry conglomerates and representatives of the political elite who controlled them were very reserved about the membership because it limits their ability to implement measures that protect the internal market. Oil companies are interested in the construction of a new pipeline, whereas Russian Railways would have a completely different position, since 14% of Russia's oil export travels via railways.

Russia's political stability and possible changes are very dependent on the settled balance between competing elite groups and the ability to control the intercompetition of different groups. In other words, in order to maintain the state's stability, these rules of the game also have to be maintained.

What does this mean? Putin maintains the stability of the political system by evenly allocating economic annuities between different elite groups. Obviously, such a scheme can only work if the country's economy is centralized and its main areas are controlled by the state (directly or via loyal oligarchs).

Examples of elite control

Putin's model of elite control shines in the energy sector, which is vital to the country's economy and highly profitable, especially in the field of exporting energy resources to foreign markets.

One of the largest energy infrastructure projects in Russia – the Eastern Siberia–Pacific Ocean oil pipeline – was the cause of at least two battles for power allocation. The first confrontation took place in 1992, when Yukos initiated the project, and today the company Transneft, which controls the entire transportation of oil and gas via pipelines, submitted an alternative project. When Mikhail Khodorkovsky, head of Yukos, was arrested in 2003, Transneft took over this huge project completely.

But then Russian Railways objected to the project with Yakunin, leader of one of the most influential groups, in the forefront. If completed, the huge project would have taken the monopoly of oil export into the region of Southern Asia from Russian Railways. For example, in 2005 Russian Railways exported 7.6 million tons of oil to China, whereas the pipeline would be capable of transporting 80 million tons.

Even though the pipeline was built and opened in 2011, Putin played the role of a 'conciliating arbiter': amendments were made to the Federal Law on Natural Monopolies to include Russian Railways into the state's regulatory mechanisms for oil export. In other words, Yakunin made sure that his company's export flows would be independent from Transneft capacity, yet allowing it to continue with the project.

Another example of Putin as an arbiter between interest groups is the recent reallocations in the gas sector, where two giants – Rosneft and Novatek – are looking to eliminate Gazprom's monopoly in the field of gas export. The increasing power of these two companies changed Putin's opinion regarding the demonopolization of gas export via pipelines.

During the meeting of the Strategic Fuel and Energy Sector and the Environmental Commission on 4 June 2014, he no longer opposed Sechin's idea, even though he was categorically against it before. Putin's influential friend and Novatek shareholder, Timchenko, said at the International Economic Forum in Saint Petersburg that the company was ready to supply gas to Europe via pipelines and stressed its strategic importance.

Such a façade demonopolization (when instead of a single exporter-monopoly of energy resources several giant companies appear) would allow Moscow to talk about the adjustment of Russian energy market to EU's competition conditions and market liberalization. In other words, the current situation is a win-win for the elite groups and Putin.

The events in Ukraine are most probably the best indicator that the reallocation of power between Kremlin clans has a significant impact on Russia's internal and foreign policies: Russia's 'tough' actions towards Ukraine allow supposing that currently representatives of die-hard statesmen- 'siloviks' have a stronger influence on the 'collective' Putin. That's why an analysis of Russia's political and business clans would assist in getting to know better how Putin's vertical system of power works and also allow predicting more accurately the Kremlin's future actions.

In the next publication of „Vladimir Putin's Russia“ please read about the clan of Russian Deputy Prime Minister Dmitry Rogozin and it's role behind the aggression towards Ukraine.