Corporate Raiding in Russia
Tackling the Legal, Semi-Legal and Illegal Practices that Constitute Reiderstvo Tactics

Sarah Lain
185 years of independent thinking on defence and security

The Royal United Services Institute (RUSI) is the world’s oldest and the UK’s leading defence and security think tank. Its mission is to inform, influence and enhance public debate on a safer and more stable world. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today’s complex challenges.

Since its foundation in 1831, RUSI has relied on its members to support its activities. Together with revenue from research, publications and conferences, RUSI has sustained its political independence for 185 years.

London | Brussels | Nairobi | Doha | Tokyo | Washington, DC

The views expressed in this publication are those of the author(s), and do not reflect the views of RUSI or any other institution.

Published in 2017 by the Royal United Services Institute for Defence and Security Studies.

RUSI Occasional Paper, July 2017. ISSN 2397-0286 (Online).
This paper explores Russian corporate raiding (reiderstvo) tactics, which are used to pressure and/or steal businesses, often with the complicity of corrupt state authorities. Due to its complexity, defining reiderstvo in a way that is helpful can be challenging, but looking at the tactics involved in the practice, rather than the final result – the stealing of the business – can help to focus attention on some of the threats facing business in Russia and the damage done to the country’s investment climate.

Russian reiderstvo can be a complex process and defining it can be challenging. Indeed, the author found that experts disagree about whether supposedly modern-day examples of reiderstvo – such as the cases of the oil company Bashneft, the chemical producer Togliattiazot and Domodedovo airport – can be labelled as such. In their detailed analysis of how reiderstvo works, Louise Shelley and Judy Deane describe the practice as the use of a ‘host of illegal tactics ranging from bribery, forgery, corruption, intimidation, and violence employed by raiders to steal companies from their owners, making massive and rapid profits by selling off assets and laundering the proceeds’. This definition certainly holds true for many historical cases, where detailed analysis has revealed a fuller picture of the details and motivations. However, to understand problems associated with reiderstvo today, this definition narrows the focus too much.

In reality, the definition is broader. Reiderstvo is not necessarily a single crime aimed at the theft of a business. Reiderstvo tactics are used as a means to achieve multiple and often contrasting ends. This makes the term itself somewhat misleading and at times unhelpful. Although corruption is usually involved, those using reiderstvo tactics do not exclusively rely on illegal practices; indeed, they blur the lines between legal, semi-legal and illegal practices. Often reiderstvo tactics are used as a way to pressure businesses to comply with corrupt requests for personal gain, rather than being used to steal a business outright.

Studying the tactics used to pressure businesses as part of a broader view of reiderstvo, rather than concentrating conceptually on reiderstvo, can help to better focus attention on some of the significant threats facing business in Russia and the damage done by reiderstvo to the country’s investment climate. Taking this view will assist in better articulating specific measures that need to be taken to combat the various tactics used by those engaged in the practice. This paper, therefore, mostly refers to ‘reiderstvo tactics’, rather than just ‘reiderstvo’, in an attempt to capture the wide range of ways that businesses are put under pressure in Russia.

Reiderstvo tactics continue to be a concern for businesses in Russia, despite the issue having a lower public profile than during the 1990s and late 2000s. It is difficult to accurately measure the full extent of reiderstvo in Russia, in part because they are often included within broader legislative definitions.

such as ‘economic crimes’, which do not cover or differentiate between the various tactics. It is also difficult because the state agencies tasked with investigating and enforcing against corporate crime are the very agencies that are frequently involved in reiderstvo tactics. These include the tax authorities, security services, courts and legal system, regulatory control agencies, local and regional administrations and law enforcement. Moreover, false accusations of reiderstvo can also be used by state authorities or corporate competitors to falsify criminal cases or pressure business.

A key issue is the apparent lack of strong political will to implement comprehensive and consistent measures to protect businesses, despite rhetoric from President Vladimir Putin. The research for this paper – which included an in-depth review of the relevant academic literature and legislation, and interviews with business people, consultants and academic experts – revealed that – apart from a few high-level public cases – reiderstvo tactics are often used at the local level in Russia, frequently involving local political corruption. Initiatives such as the business ombudsman have raised awareness of the need for business protection, but the office is still limited politically in how far it can intervene, and structural issues remain at various levels of government that enable the abuse of power.

The paper does not seek to duplicate previous work on reiderstvo, and it is by no means a comprehensive analysis of past and present reiderstvo cases. Instead, this paper seeks to address some of the assumptions surrounding reiderstvo, suggesting that it is more useful to refocus attention on the array of individual legal, semi-legal and illegal means used to pressure businesses. The sum is arguably less important than the parts in understanding how reiderstvo has evolved. By concentrating on reiderstvo tactics rather than the end result, this paper provides a new and improved framework through which Russian business associations and authorities could and should target initiatives to protect business rights.

Recommendations

Below sets out some recommendations – particularly aimed at the Russian government – for combatting reiderstvo tactics, in order to improve the investment climate in the country:

- **Analyse individual tactics and pressure points that lead to reiderstvo.** Reiderstvo tactics are significant deterrents to both foreign and domestic investment, so it is in Moscow’s interest to identify the different tactics used and employ measures to tackle them. A more robust evidence base of genuine reiderstvo tactics is required to understand the issue.

- **Examine, in particular, the way that regulatory and law enforcement bodies may be involved in reiderstvo tactics.** It is clear that corruption is a key feature of pressure on business. It would be beneficial to review how the powers these organisations have can be abused to pressure business.

- **Consult with specialised state bodies and allow the ombudsman to intervene more in genuine reiderstvo cases.** Several bodies have formal structures that can raise business rights issues in a legitimate political forum. Most of these have regional representation too, which should be able to have greater oversight over local dynamics in the regions.

- **Review legislation that addresses pressure on business** to identify improvements that might be made to protect businesses not only from corrupt officials but also hostile competitors. Currently, the problems facing businesses are grouped under broad articles of the Russian criminal code, such as ‘economic crimes’.
I. Evolution of the State’s Role in Reiderstvo

**REIDERSTVO IN RUSSIA** is particularly associated with the 1990s, when businesses were the target of often-violent battles for control between newly enriched businessmen.¹ There were also a number of highly public *reiderstvo* cases in the early to mid-2000s, such as the Evroset and Sofex cases, which showed how state authorities were becoming more assertive in their attempts to profit from private business.² Currently, the phenomenon appears to have a lower profile, but it continues to be a concern for businesses.³ This section seeks to understand how *reiderstvo* has evolved, particularly with regards to state involvement and its impact on the practice.

After the Soviet Union collapsed, state institutions were weakened. Businesses therefore sought protection through private enforcers, many of whom were criminal groups or from firms set up by former employees of the Soviet security apparatus.⁴ These actors offered entrepreneurs protection from extortion in exchange for a percentage of profit, which was commonly known as a *krysha* (literally ‘roof’).⁵ Academic Michael Rochlitz states that ‘[D]uring these years, state agencies had lost their monopoly of violence and were often just another competitor on the market for protection money’.⁶ When specifically examining the practice of corporate raiding in this period, state organs tended to be ‘instruments rather than initiators of raiding’.⁷

In the late 1990s, this ‘protection’ became more professional and criminal groups turned increasingly to formal ownership of companies.⁸ By the early 2000s, businesses sought protection from state institutions, namely the courts, and the number of legal professionals working for businesses grew.⁹ As Russia recovered after the 1998 financial crisis, state agencies received better funding and were gradually able to consolidate their position.¹⁰ This was assisted by a rise in commodity prices and a period of growth, which increased the fiscal capacity of the

---

2. Evroset is a prominent mobile phone retailer, founded by Yevgeny Chichvarkin and Timur Artiyemov. It was subject to raids by Ministry of Interior officials. The owners eventually fled to London. The chemical company Sofex’s owners, Yana Yakovleva and Aleksey Protskiy, were arrested and imprisoned.
3. Author interviews with business consultancy experts, Moscow, February 2017.
5. *Ibid*.
7. Author interview with UK-based expert on Russian political economy, January 2017.
10. Rochlitz, ‘Corporate Raiding and the Role of the State in Russia’.
As Professor Alena Ledeneva notes, the early 2000s ‘saw the return of a more customary and historically predominant model of governance in Russia, whereby the state captures business’. Essentially, state agencies turned gangster in the 1990s, becoming the initiators of *reiderstvo*, thanks to their ability to regulate and inspect businesses.

There is a wide range of roles that state agencies play in the process of *reiderstvo*. Sometimes, state registry employees provide corporate information to raiders or altered registries to falsify ownership. In other cases, corrupt judges speed up court judgments in favour of raiders. Another approach has been for members of the local security apparatus to request a portion of a company in return for ‘protection’. If a business person refuses to comply, they may be detained on false charges of embezzlement or fraud until they agree to comply. Sometimes, law enforcement abuses its position to obtain corporate information crucial to a raid. The investigation of the Plutos meat processing factory in 2004 is a case in point. Law enforcement requested corporate documents from the company owner on the premise of an investigation that was later dropped. Six months later, these documents were used in a successful takeover of Plutos. The company was resold six times in three months, with the premises and equipment finally being sold off and the company being dissolved, before the case went before the court.

Many of these tactics have been used time and again, but they are also adaptable, and, as with most crime, evolve over time. For example, one Russian businessman told the author that a current scheme was for suppliers of state-owned enterprises to acquire substantial stakes in independent supply companies in return for guarantees of state contracts.

The Yukos Affair was something of a turning point in terms of the state’s involvement in *reiderstvo*. The oil and gas giant Yukos was acquired by Mikhail Khodorkovsky – described as Russia’s richest man at the time – during the privatisations of the 1990s. However, in 2003, Khodorkovsky was arrested on charges of fraud and tax evasion. The company was declared bankrupt in 2006, dismantled and much of it was sold off to state-owned enterprises, such as Rosneft. This has been seen by many to be punishment for Khodorkovsky’s public criticism

---

15. Author interview with former Russian businessman now residing in the UK, April 2017.
against state corruption and his funding of opposition parties. Some see the case as having emboldened state agencies, particularly law enforcement, in pursuing reiderstvo.

Rochlitz has conducted statistical analysis that demonstrates that 2003 did indeed mark a watershed for increased state involvement in reiderstvo, particularly at the lower, more local, political level. Using Russian newspaper archive Integrum, he examined the period between 1999 and 2010 and found that there were 312 cases of corporate raiding. In particular, he noted increased references over time to state involvement, such as security services, tax services, courts and the legal system, and local and regional administrations. His conclusion was that state agencies became increasingly involved in illegal asset-grabbing from 2003 onwards.

Importantly, the Yukos case highlights the fact that reiderstvo is not necessarily clear-cut in its use of illegal measures, particularly when state authorities are involved. In fact, a legal framework is often used. As Richard Sakwa has noted regarding the Yukos case, ‘the defining feature was the instrumental use of the courts and the tax system to achieve political goals’. Moreover, semi-legal or illegal business practices, which may be widespread in an industry, may also be used later to justify legitimate investigations into issues, such as tax optimisation or ‘informal’ practices. Yuko Adachi, of Sophia University, argues that informal corporate governance practices used by Yukos itself were ‘not entirely compatible with the formal rules, and [they] are often based on unwritten rules or “understandings” (ponyatiya) that are non-transparent to outsiders’. For example, Yukos used transfer pricing to force subsidiaries to sell oil to the holding company at a very low price, as well as share dilution to reduce the proportion of subsidiaries’ equities held by minority shareholders, therefore weakening their voting power. This was done in order to streamline Yukos’s business administration and improve efficiency. Yukos might have used illegal or semi-legal schemes, but the law was enforced unevenly across the sector. The allegations of tax evasion against Yukos in 2003 were due to ‘irregularities’, namely the illegal exploitation of tax havens to reduce the amount of tax it paid in Russia. Other oil and gas companies, such as Lukoil, allegedly used similar schemes at the time, but Yukos was the only one charged and prosecuted.

Although business practices in Russia have changed since the 1990s and early 2000s, there is a current belief that ‘informal’ practices are still necessary to conduct business. This again gives state authorities the leverage to put pressure on businesses. Based on the author’s various

20. Rochlitz, ‘Corporate Raiding and the Role of the State in Russia’.
23. Transfer pricing takes place when two companies that are part of the same multinational group establish a price to trade something with each other.
discussions with those familiar with Russian business, the sense is that the administration and legal regulations are so complex and at times incompatible that it is difficult to strictly ‘play by the rules’ and run an effective business. One academic expert specialising in corporate governance told the author that such difficulties with compliance might later form genuine grounds for launching formal investigations. Such grey areas clearly provide potential opportunities for abuse and reiderstvo. For example, when discussing the construction industry, this expert said that, given all the regulations, it is ‘impossible to comply’.26 Another expert said more broadly that ‘the legal sphere is so contradictory that you cannot get anything done … regulations need to change first’.27 This again adds to the complexity of quasi-legal and legal tactics that can often make up reiderstvo.

26. Author interview with academic specialising in Russian corporate governance, Moscow, February 2017.
27. Author interview with academic, Higher School of Economics, Moscow, February 2017.
II. Legal, Semi-Legal and Illegal Reiderstvo Tactics

QUESTIONS OF LEGALITY are crucial to reiderstvo. As noted previously, confining reiderstvo to Shelley and Deane’s definition of the use of illegal tactics to steal companies from their owners, with the aim of making rapid profits, does not necessarily capture the full complexity of the practice. Reiderstvo involves legal, semi-legal and illegal processes, although corruption or abuse of power is certainly a staple.

Philip Hanson of the University of Birmingham has succinctly described the mixture of components used, some of which are particularly relevant to the aforementioned Yukos case:

common ingredients are the complicity of any or all of the tax, security, law enforcement and judicial authorities, and the use of charges that are either freely invented or examples of the highly selective use of accusations that could have been levelled at many other business people but were not.

A 2008 report from the Centre for Political Technologies in Russia highlighted how corporate raiders in Russia were increasingly using semi-legal tactics to achieve their goals: ‘the majority of raiders are becoming more and more skilled. As a result, they don’t use the law, but the loopholes in the law, the possibility of different interpretations of it’.

Thomas Firestone, a lawyer and former US Department of Justice official, adds that reiderstvo relies on legitimate legal processes, such as court orders and lawyers, as well as illegal strategies, such as blackmail, falsified documents, physical violence and litigation. Some of the legalistic frameworks described in the academic literature and by experts interviewed by the author in London and Moscow are outlined below:

Bankruptcy

Bankruptcy has been one of the most typical reiderstvo tools. Historically, this has been facilitated by legislation, most notably the 1998 bankruptcy law. Under the law it replaced, a company could initiate bankruptcy proceedings only if its total debts exceeded its total assets. In 1998,
this was changed, allowing any creditor who held a debt of 500 times the monthly minimum wage, which remained unpaid for three months, to file a demand for bankruptcy with the right to appoint a temporary manager.\textsuperscript{6} Between 1993 and 1997, only 6,000 bankruptcy appeals were submitted to arbitration courts. After the new law was introduced, the number of court appeals reached over 12,000 by June 1999.\textsuperscript{7}

The increase in bankruptcy cases was not all linked to \textit{reiderstvo} – the law was also part of efforts to raise the level of tax collection. However, the head of the Federal Service for Financial Recovery, Tatiana Trefilova, said in August 2001 that only about 30\% of bankruptcy cases were ‘ordered’, with a number of creditors interested in a ‘change of shareholders’, indicating they had been initiated as part of hostile action towards business typical of \textit{reiderstvo}.\textsuperscript{8}

Vadim Volkov, of the European University at St Petersburg, has explained how the process worked.\textsuperscript{9} The raider would acquire a substantial portion of the target company’s debt and then force the firm into bankruptcy by demanding the immediate repayment of the debt. Bankruptcy procedures could be pushed through a court, often assisted with bribery. When the court approved a bankruptcy case, it would appoint a temporary boss who would then select a candidate for the head of external crisis management. The raider would be involved in selecting this candidate and the external crisis manager would receive extraordinary executive power to bring in new management. The new management would then redirect sales and financial flows to its own trading companies or banks, with the aim of forcing shareholders to sell their stakes to the raider. In other cases, the shareholder registry was simply falsified. If the legitimate shareholders protested, then the management could call on local law enforcement to initiate criminal investigations against them, particularly on charges of economic crimes.

The volume of bankruptcy cases dropped in 2002 after the adoption of an updated bankruptcy law, which crucially expanded debtors’ rights to contest creditors’ petitions.\textsuperscript{10} But that is not to say that using bankruptcy as a \textit{reiderstvo} tactic no longer takes place, as shown by a recent case study.

\textbf{Modern Bankruptcy Tactics: The Pavlovskgranit Case}

In January, PPF Management LLC, a Delaware-based company, filed a lawsuit in the US District Court for the Southern District of New York, accusing Russia’s largest lender, Sberbank, and its president, German Gref, of an attempt to seize granite company Pavlovskgranit. The company’s
former controlling shareholders, Sergey Poymanov and Irina Podgornaya, initiated the case, and they allege that bankruptcy was one of the various *reiderstvo* tactics used to seize the company.\textsuperscript{11}

Poymanov took out a loan from Sberbank in 2008 worth RUB 5.1 billion (£66.5 million as of 4 July). He wanted to invest in German equipment in order to bid for an order from state-owned Russian Railways (RZhD). At the time, NEO Center, a financial services valuation company partly owned by Oleg Gref, the son of German Gref, said that Pavlovskgranit was valued at RUB 13.4 billion.\textsuperscript{12} But when RZhD subsequently cancelled its contract, NEO Center said that, as a result, the stake in Poymanov’s company, which had been used as collateral against the Sberbank loan, had dropped significantly in value to RUB 1.14 billion.\textsuperscript{13} Sberbank therefore insisted that Poymanov sign over control of the company. Poymanov refused and continued to pay by instalments. He commissioned an independent valuation firm, which found the stake to be worth three times the valuation made by NEO Center.\textsuperscript{14}

Poymanov alleges that he eventually tried to renegotiate the terms of the loan, but that Sberbank refused and in 2010 demanded the full repayment of the remainder of the loan, which was RUB 4.6 billion.\textsuperscript{15} In January 2011, Sberbank won several court decisions that awarded the bank damages and passed ownership of a 24.6% stake in Pavlovskgranit to Sberbank subsidiary Sberbank Capital. Poymanov views this as *reiderstvo*; German Gref denies any involvement.\textsuperscript{16} The case is ongoing.\textsuperscript{17}

In a separate development, in May 2017, the Presnensky District Court in Moscow ordered Poymanov’s arrest on allegations of abuse of authority, resulting in the loss of assets worth RUB 930 million.\textsuperscript{18} The claim is that in 2011 Poymanov diluted the shares of Pavlovskgranit’s management company, Pavlovskgranit-Invest, causing the deliberate loss of control of the company and the movement of capital to an offshore company. Poymanov then allegedly authorised Pavlovskgranit-Invest’s director general to conclude an agreement with another company for the sale of 150 railway vehicles. However, payment was not completed, leading to

\begin{itemize}
  \item Jason Corcoran, ‘Sberbank and CEO Gref Hit with $750mn Corporate Raiding Lawsuit’, *BNE Intellinews*, 25 January 2017.
  \item Corcoran, ‘Sberbank and CEO Gref Hit with $750mn Corporate Raiding Lawsuit’.
  \item Petlevoi, ‘Sberbank i German Gref stali ovetchikami v amerikanskom sudye [Sberbank and German Gref Become Defendants in the US Court]’.
  \item Corcoran, ‘Sberbank and CEO Gref Hit with $750mn Corporate Raiding Lawsuit’.
\end{itemize}
Corporate Raiding in Russia

Pavlovskgranit-Invest’s bankruptcy in 2012. It was alleged that this was done intentionally just to prevent these assets from being reclaimed by creditors Sberbank and Sberbank Capital. In June 2017, Poymanov lost his appeal against the decision.

Shareholders’ Rights and Disputes

Another way to launch an assault on a business has been to claim defence of minority shareholders’ rights. This has been used in a number of ways. Historically, the main objective was to put a restriction on the shares belonging to the majority shareholder in order to deprive them of the right to vote at the shareholders’ meetings or to engineer the sale of the shares to the aggressors’ front company in their absence. For example, the shares of the majority or major shareholder could be restricted by a state court judgment, and that person would therefore be temporarily removed from decision-making. This could allow minority shareholders to have a majority vote at a general meeting. This could be used to change management or sell shares to an entity linked to the aggressor as a result of the vote, thus changing ownership. A business person who claims to have fallen victim to reiderstvo told the author that actions by minority shareholders were conducted in order to ‘deplete the resources of the company’s security ... create an atmosphere of ... depression in the company, force the company’s management to make mistakes, [and] disorganise the work of the company itself. Such a company is easy to manage after the removal of decision-makers.’

As with the bankruptcy law, the Russian government reacted to address some of these issues. It introduced a series of amendments in 2009 and 2010, under then President Dmitry Medvedev, which were dubbed the ‘anti-raider amendments’. Specific amendments to the ‘Law on Joint Stock Companies’ sought to reduce opportunities to abuse shareholders’ rights, particularly by reducing the time allowed for them to challenge the decisions at general meetings and by boards of directors and also restricting the right to convene extraordinary meetings of shareholders, in recognition that this had been used to force takeovers. However, as with legislation in any country, it is only as good as its enforcement.

Although legislative amendments have been a positive step, shareholder disputes are still a useful tactic for launching hostile activity towards a company, particularly through the use of litigation, accusations of criminal activity, holding a fraudulent annual general meeting or meeting of board of directors, and falsifying information on the company’s management to the

19. Trifonov, ‘Eks-vladelets “Pavlovskgranita” zloupotrebl na 900 millionov [The Ex-Owner of Pavlovskgranit Lost 900 million].’
22. Author email exchange with Aleksandr Mitrofanov, 19 April 2017.
tax authorities. To achieve impact, this *reiderstvo* tactic may require administrative resources or corrupt connections in the courts or law enforcement.

**Using the Minority Shareholder Rights Narrative: The ToAZ Case**

One of the longest-running cases in which a shareholder dispute has been used as a tactic is the ongoing challenge facing TogliattiAzot (ToAZ), a Samara-based company that produces 8% of the world’s ammonia.

Prominent Russian businessman Viktor Vekselberg allegedly attempted the first takeover of ToAZ in the mid-2000s through his company Syntech. When then ToAZ chairman Vladimir Makhli and chief executive Aleksandr Makarov refused to sell to Vekselberg, the company was subject to pressure from local law enforcement and a series of regulatory controls. In 2005, law enforcement opened a criminal case against Makhli and Makarov, charging them with fraud and tax evasion. Both fled the country. In 2010, law enforcement dropped all the charges against Makhli and Makarov.24 Apart from the suspected collusion from the Ministry of the Interior, it is alleged that judges were also pressured in terms of how they should rule in court on ToAZ’s case.25

Unsuccessful in his efforts, Vekselberg decided to sell his minority shareholding in ToAZ to Dmitry Mazepin in 2008, a businessman and former member of the Kirov regional Duma for the ruling United Russia party. Mazepin owns the company Uralchem, which has a 9.9% stake in ToAZ. It is said that if Uralchem gained majority control of ToAZ, it would be overseeing roughly 20% of the world’s ammonia production.26

ToAZ continued to come under pressure from Mazepin in his new position as minority shareholder. In December 2014, courts in Moscow sanctioned the arrest, on accusations of fraud, of the owner of Ameropa AG (a Swiss-based company that owns 12.9% of ToAZ) Andreas Tsiivi, shareholders Vladimir Makhli and Sergei Makhli (Vladimir’s son).27 In June 2015, the Meshchansk regional court of Moscow froze 100% of ToAZ’s securities as part of a fraud case initiated by Uralchem in 2012.28 Mazepin’s claims are similar to those made by Vekselberg. They

---

allege that between 2008 and 2011, ToAZ sold products at a lower price through affiliates to Swiss structures Nitrochem AG and Ameropa AG, which then resold them at market price. They therefore reduced the net profit of the enterprise to the detriment of Uralchem.\textsuperscript{29}

ToAZ has also been attacked by other minority shareholders, who are suspected of working with Mazeppin. In November 2015, businessman Evgenii Sedykin held an annual general meeting of shareholders aimed at altering the management structure of the company.\textsuperscript{30} He then submitted fraudulent documents to the tax authorities, which then went to the state registry, placing himself as board chairman and appointing his associate Sergei Chelyshev as the new director general. In December 2015, Sedykin held another illegal shareholder meeting in which he allegedly awarded himself 4% of the company and RUB 972 million worth of dividends.\textsuperscript{31} These attempts were ultimately unsuccessful, and ToAZ filed criminal proceedings in December 2015.\textsuperscript{32} In February 2017, the Samara regional court approved the indictment of Sedykin on charges of forging documents, falsification of the state registry and attempted fraud in relation to the case, and the case was passed to the Central Court of Togliatti.\textsuperscript{33}

There may also have been some form of collusion with state authorities. Another person accused in the ToAZ dispute was Evgenii Korolev, who in April 2013 was issued with an international arrest warrant. He was chief executive of ToAZ and was in London at the time. In January 2017, Westminster Magistrates’ Court refused a call by the Russian government to extradite him, with chief magistrate Emma Arbuthnot saying that Russian investigators were ‘too close’ to Mazeppin and that reassurances that Kolorev would not be treated inhumanely were ‘too vague’.\textsuperscript{34}

The former head of Russia’s Committee on Economic Policy, Vladimir Gusev, has described the situation:


\textsuperscript{31} Ibid.


\textsuperscript{34} Christopher Williams, ‘Court Rejects Russian Extradition Bid’, The Telegraph, 2 January 2017.
[ToAZ] was being stifled by inspections initiated by raiders and by unlawful demands ... to escape unlawful court decisions, Makhlai had to leave the country and manage the company from abroad. He is certainly an effective manager. But it’s absurd. Somebody should stop the raiders.\textsuperscript{35}

Although not verifiable, in a recent court case former ToAZ chairman Sergei Makhlai reportedly claimed that in 2012 and 2013 Mazepin threatened him, saying that if Makhlai did not arrange for Mazepin to obtain a majority interest in ToAZ, it would be the subject of a raid.\textsuperscript{36}

The way that ToAZ has been pressured is through actions that appear to use legitimate mechanisms to downplay the hostile intent behind them. This, again, adds uncertainty as to the appropriateness of the term \textit{reiderstvo}, despite the management of ToAZ and several observers seeing it as such. However, one political risk expert in Moscow told the author that they were reticent to label the ToAZ case as \textit{reiderstvo}, instead calling it a shareholder dispute.\textsuperscript{37}

\textbf{Privatisation and State Capture: The Bashneft Case}

Past privatisation processes may retrospectively be reassessed so that assets can return to state control. The recent case of Bashneft is a good example of this. It echoes some of the goals already highlighted in the Yukos case, whereby pressure was exerted on a business at a high political level in order to obtain a privatised asset which was subsequently passed to state control. It should be noted, however, that some analysts in Moscow were again uncomfortable branding this as a case of \textit{reiderstvo}, highlighting the fact that legalistic frameworks, in this case legislation pertaining to money laundering and illegal privatisation, were used to claim the assets.

In September 2014, Vladimir Yevtushenkov, the owner of AFK Sistema, which in turn owned oil company Bashneft, was placed under house arrest.\textsuperscript{38} A court ruled in October 2014 that the company’s privatisation had been illegal. The Russian prosecutor general’s office claims that it had uncovered ‘significant violations’ of the law when Yevtushenkov acquired Bashneft from the government of Bashkortostan in 2009.\textsuperscript{39} Moreover, Yevtushenkov was accused of money laundering during the sale.\textsuperscript{40} The Russian state was granted permission to seize Bashneft from Sistema.\textsuperscript{41} The criminal case against Yevtushenkov was later dropped, implying that the arrest was used to put pressure on the businessman into agreeing a deal.\textsuperscript{42} Yevtushenkov was then

\textsuperscript{35} Ledeneva, \textit{Can Russia Modernise?}, p. 200.
\textsuperscript{37} Author interview with a political risk expert, Moscow, February 2017.
\textsuperscript{38} Courtney Weaver, ‘Russian Oligarch Yevtushenkov Placed under House Arrest’, \textit{Financial Times}, 17 September 2014.
\textsuperscript{39} Maria Kiselyova, ‘Russia Moves to Take Control of Oil Firm from Billionaire’, \textit{Reuters}, 26 September 2014.
released in December 2014.⁴³ The state-owned Rosneft then acquired a controlling stake in Bashneft in October 2016.⁴⁴

Very little is known about the real motivation behind this case. Some experts have suggested it was linked to the economic situation, worsened by the drop in oil prices and Western sanctions, and the need for the Russian state to try to reduce its budget deficit.⁴⁵ It could be linked to timing, as Bashneft was planning an initial public offering in London, which some in government may have opposed.⁴⁶ Other experts spoken to have drawn attention to the likelihood that this was a way for Igor Sechin, Rosneft’s head and close ally of Putin, to consolidate his position in the country’s oil and gas industry. There had been delays in the decision to ‘privatise’ Bashneft after the state acquired it from Sistema. The delays were interpreted by some analysts as reflecting internal dissent within government as to what kind of privatisation Bashneft was facing.⁴⁷

⁴³. Courtney Weaver, ‘Russian Investigators Release Billionaire Vladimir Yevtushenkov’.
⁴⁶. Author interview with political risk analyst, Moscow, February 2017; Courtney Weaver, ‘Russian Oligarch Yevtushenkov Placed under House Arrest’.
III. A Defence for Business?

The case studies, academic analyses and press reporting on reiderstvo have highlighted the involvement of state authorities in this practice; although it should not be assumed that reiderstvo tactics are always condoned or ignored by the state.

There have been some efforts to have more dialogue with business on these issues, as shown by the emergence of business associations that voice concerns to the government, such as the Russian Union for Industrialists and Entrepreneurs for big business, Delovaya Rossiya for medium-sized enterprises, OPORA Rossii for small businesses and Torgovo-Promyshlennaya Palata for foreign economic relations. NGOs have also been created which are aimed at protecting businesses from state pressure, such as Yana Yakovleva’s non-profit Partnership Business Solidarity, formed in 2008.

Andrei Yakovlev, Anton Sobolev and Anton Kazun, from the Higher School of Economics in Moscow, have argued that public anger over reiderstvo increased after the 2007–08 financial crisis, when businesses came under pressure due to reduced state resources. This pressure was particularly acute for medium-sized companies that did not have the resources to protect themselves. Prior to the crisis, more businesses had the means to pay off the raiders, making it ‘less costly than resistance’. The crisis made resistance a more cost-effective proposition. This led to public initiatives by Delovaya Rossiya, culminating in the creation of the Business Against Corruption Center for Public Procedures (BAC) in 2011.

BAC is a public–private partnership business association that receives and reviews complaints from the private sector of inappropriate state action. BAC has a public council – made up of lawyers, business people and politicians – to review claims to decide whether to support a case by writing to the courts. It is a quasi-state organisation, given that it is state-funded and has presidential authorisation. It is chaired by a mixture of public and private individuals, including the co-chairman of Delovaya Rossiya, Andrei Nazarov, and the adviser to the chairman of the state Duma Federal Assembly, Yuri Shuvalov, among others.

Putin has permitted some efforts towards improving the business climate, creating the role of business ombudsman in 2012, to which he appointed Boris Titov, who also chairs the BAC. There is an ombudsman working in every Russian region, which extends the position’s power to the

2. Author interview with academic specialising in Russian corporate governance, Moscow, February 2017.
local level. One academic specialising in corporate governance told the author that this at least gave even small businesses ‘access to defence strategies if they are facing strong pressure from the Ministry of Interior’.\(^5\)

Titov has spoken out against state pressure on business. For example, in May 2016, Titov provided Putin with a report that highlighted that 2015 had been a year of unprecedented pressure on business. The number of criminal cases against businesses had grown by 20% compared with the previous year.\(^6\) In a July 2016 meeting with Putin, Titov allegedly criticised the increase in surprise inspections of businesses from state agencies.\(^7\) He tried to initiate a register of inspections, but noted ‘we once again came to a compromise, when the inspector does not take responsibility for the truth of the information put into the register’.\(^8\) He called for new legislation that would increase the responsibility of law enforcement authorities for illegal criminal investigations and probes into procedural violations.\(^9\) In September 2015, Titov noted that ‘initiating a criminal case – this is the best method of raider attack on a business’.\(^10\)

There have been some limited successes, particularly regarding interventions to release those arrested illegally. For example, in August 2015, the ombudsman intervened to secure the release of Valerii Grachev, who was the chairman of Kraskom LLC and had been accused of fraud.\(^11\) BAC has also had some limited success. In 2008, the owner of the medium-sized dairy company Agromol, Dmitry Malov, was approached by two former officers of the Federal Security Service (FSB) with a proposition to sell his business at below market value. After Malov refused to sell, the regional FSB division initiated a criminal case against him for ‘stealing’ RUB 1.8 million, which was actually part of a loan refinancing procedure.\(^12\) In 2011, BAC helped to get the sentence reduced and Malov was released on parole. He was acquitted later that year. Titov noted at the

\(^5\) Author interview with academic specialising in Russian corporate governance, Moscow, February 2017.  
\(^8\) Kornya, ‘Sudebnuyu reformu za odin den ne provedyosh, a nalogi ismenit mozhno [You Cannot Conduct Judicial Reform in One Day, But You Can Change Taxes]’.  
\(^12\) Yakovlev, Sobolev and Kazun, ‘Means of Production versus Means of Coercion’.
time that it was due to the cooperation and support of Supreme Court Chief Justice Vyacheslav Lebedev that the case was dropped.\textsuperscript{13}

This demonstrates a political tension. On the one hand, in a bid to encourage investment, the federal government has acknowledged that there needs to be some defence against hostile practices targeting business. On the other, these organs of defence clearly do not have full powers to deter or defend businesses against other players in the administrative and security apparatus who wish to profit from pressure on business. Even initiatives supported by the president, such as the BAC, often struggle to get cooperation.\textsuperscript{14} Political and/or powerful support at a high level, which may depend on personal connections, is still required for a fuller defence.

Such connections have at times enabled businesses to defend themselves in the face of pressure or takeovers. Such defence may stem from the company’s own political or business connections, financial resources, strong PR or even local support. One business consultant in Moscow told the author that the success of ToAZ in fending off pressure was in part because it benefited from local community solidarity against the takeover attempts.\textsuperscript{15} Sakwa has noted that the original attack on ToAZ backed by Vekselberg failed ‘largely because of the extraordinary solidarity shown between management and workers’, in part due to the high degree of ‘social responsibility’ the company had shown.\textsuperscript{16} It may also be facilitated by apathy from the central authorities, making the political force behind the raiders less potent.

**Case Study: Domodedovo Airport**

Moscow’s Domodedovo Airport is a good example of a business that has fought back. In 2015, the privately owned airport faced a number of legal challenges. Russian investigators opened several criminal cases against senior executives over alleged security flaws in the run-up to the 2011 bombings at the airport.\textsuperscript{17} The airport’s owner, Dmitry Kamenshchik, was arrested in February 2016 on charges brought by Russia’s Investigative Committee\textsuperscript{18} that his neglect had indirectly led to the deaths of 37 people in a terrorist attack. The case was dropped in July 2016.\textsuperscript{19} Kamenschik was released from house arrest and retained control of Domodedovo.

This was not the first time that Kamenschik had experienced problems. In 2014, he said that approximately 6,500 legal cases had been brought against the airport since 2001.\textsuperscript{20}

\begin{itemize}
\item[14.] Author interview with representative from Business Against Corruption, Moscow, February 2017.
\item[15.] Author interview with business consultant, Moscow, February 2017.
\item[16.] Sakwa, ‘Systemic Stalemate Reiderstvo and the Dual State’, p. 86.
\item[17.] *RT*, ‘Airport owners face criminal charges over 2011 Domodedovo bombing’, 8 June 2015.
\item[18.] Russia’s Investigative Committee was set up in 2011 as the main investigating authority into corruption and misconduct of public authorities.
\item[19.] *Moscow Times*, ‘Domodedovo Owner Kamenschik Walks Free’, 1 July 2016.
\end{itemize}
state became involved, as the Federal Agency for State Property Management (Rosimushchestvo) requested the return of Domodedovo to state ownership, claiming that there had been violations during its privatisation.\(^{21}\) This was allegedly in part because, under Kamenshchik’s ownership, the airport had become a more attractive asset thanks to its modernisation and investment.\(^{22}\)

Many believe that Kamenshchik has managed to maintain control due to his good standing among influential people. For example, the General Prosecutor unexpectedly challenged a court ruling that placed him under house arrest, instead requesting that he be put on bail.\(^{23}\) Titov sent a formal letter to Putin, asking him to examine the basis for criminal prosecution of Kamenshchik.\(^{24}\) In recognition of his fending off of takeover attempts, Russian business daily *Vedomosti* named Kamenshchik its businessman of the year in 2016.\(^{25}\)


\(^{25}\) *Vedomosti*, ‘Biznesmen goda – vlaadelets aeroporta “Domodedovo” Dmitrii Kamenshchik [The Businessman of the Year – the Owner of “Domodedovo” airport Dmitry Kamenshchik].’
IV. Current Perceptions

THE PERMUTATION OF legal, semi-legal and illegal tactics of reiderstvo highlight the complexity of deciding which cases should be labelled as examples of reiderstvo and which should not. This also makes it challenging to accurately gauge the scale of the problem.

The author’s interviews with Moscow-based academics and business people revealed that there were mixed views as to the current prevalence of corporate raiding in Russia. One private business consultant said that the ‘problem had mostly been eliminated after 2010 … there is now not so much to steal’.¹ A specialist on corporate governance in Russia said ‘it had dropped off the radar’, adding, ‘they [the state] don’t need to raid, as they control a lot already’.² In contrast, another academic who has investigated the issue said that sanctions had affected the practice of reiderstvo, causing it to increase.³ Another said that reiderstvo is certainly still happening at the local level, and is focused on smaller enterprises. A pre-requisite for targeting a business through reiderstvo is that the business has physical assets to steal.⁴ One analyst told the author that, given this, sectors that might be vulnerable to reiderstvo – alongside energy and mining – include retail, construction and real estate; the case studies mentioned in this paper highlight the range of sectors that might be targeted.⁵

The author examined complaints made to BAC from the years 2014, 2015 and 2016, based on BAC’s own database.⁶ Over this period, the majority of the complaints pertained to ‘illegal criminal prosecution’. In 2016, 191 claims are recorded in the database, yet only two complaints were made in relation to ‘signs of raider takeover’. In 2015, 148 complaints were recorded, in which five explicitly used the term ‘raiding’, and six were described as the ‘seizure’ of property or business. In 2014, there were 121 complaints recorded, of which eight alleged that reiderstvo was the motivation and three referred to the illegal seizure of property or business. Therefore, it seems that reports of reiderstvo itself have not made up a significant proportion of the complaints. However, tactics that are relevant to reiderstvo, or at least pressure on business, such as illegal criminal prosecutions, are significant.

Despite these figures, Russia’s business ombudsman Titov has emphasised that pressure on business from state authorities is an increasing problem. Pressure on business, rather than specifically reiderstvo, is more often used by officials. This indicates the need to focus on the symptoms of reiderstvo. Even Putin, in his annual address to the nation in 2015, questioned

---

1. Author interview with business consultant, Moscow, February 2017.
2. Author interview with corporate governance specialist, Moscow, February 2017.
3. Email exchange with US-based academic and expert in corporate raiding in Russia.
4. Author interview with political risk analyst, Moscow, February 2017.
5. Author interview with academic specialising in Russian corporate governance, Moscow, February 2017.
the quality of investigations into business crimes. He noted in his speech that investigative authorities opened 200,000 criminal investigations into these alleged crimes, with only 15% ending in conviction. Putin said that the majority of entrepreneurs who faced criminal charges had been ‘harassed, intimidated, robbed and then released’.7

An in-depth examination of the scale of reiderstvo was beyond the scope of this report. However, the author’s discussions with analysts and the examination of press reports and official statements have revealed that, despite the absence of a robust evidence base regarding reiderstvo statistics, pressure and attacks on business are still clearly a very real threat.

When discussing the justification for his claim that law enforcement was increasingly using criminal cases against business people in its attempts to effect hostile takeovers and bribes, Titov referred to the number of cases of fraud opened against businesses. He noted that in the first half of 2016, 100,000 such cases were opened against business people, which represented a 25% increase from the same period in 2015.8 A line of communication for business complaints to Prosecutor General Yury Chaika was in operation from 17 June to 3 November 2016 and 557 claims were made in that period. Of these, 202 concerned raiding and ‘other illegal actions in relation to business property’ and 143 were related to baseless criminal prosecutions, detention and other measures of restraint by law enforcement. The most complaints were received from businessmen in Moscow, Krasnodar region and St Petersburg.9 While baseless criminal prosecutions do not technically constitute reiderstvo, and statistics on fraud do not necessarily equate to statistics of the scale of reiderstvo, they are clearly key factors in reiderstvo attempts.

A report by the Center for Strategic Research, the board chairman of which is former finance minister and economic reformer Aleksey Kudrin, has disputed the figures of how many cases or how much pressure there has been against business people. The report argues that this is mainly because exact figures are difficult to determine.10 It notes, for example, that there is no specific article in the Russian criminal code for crimes that constitute pressure against business, and those that do cover them are broad and cover other types of business-related crime as well. It cites section VIII of Russia’s criminal code, which refers to economic crimes. Although this does cover most crimes in relation to illegal pressure on business, it also covers a number of other crimes that are unrelated to entrepreneurial activity, like theft and robbery. This report, therefore, acknowledges that the evidence base for pressure on business is not robust, as the legal parameters that help define it are too broad. This supports the idea that there is a need to

7. President of Russia, ‘Presidential Address to the Federal Assembly’, 3 December 2015.
create a better evidence base of the tactics, and those carrying them out, in order to understand where pressure on business is a threat.

The report argues that while most people draw attention to the way that law enforcement abuses its position by pressuring businesses, in reality, the ‘essence of the problem goes much deeper’, as business people themselves may at times ‘use the mechanisms of criminal justice in disputes with partners and contractors’. 11 Again, this not only shows the multi-faceted nature of reiderstvo tactics, but also highlights the need for more in-depth and independent analysis to provide an evidence base of data.

11. Ibid.
Conclusion

REIDERSTVO TACTICS ARE clearly a significant business concern, the motivation for which may be broader than stealing a company. Whether reiderstvo is on the rise or not is less relevant than the clear continuing practice of illegal, legal and quasi-legal tactics that are used to pressure businesses in order for someone else – often a state authority or a business actor with the support of state authorities – to gain unfairly. Companies may also use false claims of criminal activity to settle internal disputes or gain an advantage over a competitor.

A key challenge to addressing this pressure against business is the lack of political commitment to addressing the range of practices that facilitate this pressure, such as corruption or the use of criminal cases against business people by officials, administrative bodies or other business people. More should be done to better define criminal pressure against business in order to create a more robust evidence base of when and how it occurs.¹

The federal government does not seem to have the oversight or inclination to tackle abuses of power or the mis-use of criminal investigations. The business ombudsman and organisations aimed at protecting business rights have regional reach, but their effectiveness is limited. These should be used more effectively so that those without the political and financial resources are able to defend themselves.

Russia would greatly benefit from more domestic investment, and stories of reiderstvo tactics deter foreign investment in the smaller sectors that need developing. The dynamics of reiderstvo at the local level, as well as legal reform, should be the focus point for any intervention to tackle the issue.

¹ Center for Strategic Research, ‘Problema Pravookhranitelnogo davleniya na biznes: lozhniye posylki i besperspektivniye predlozheniya [Problems of Law Enforcement Pressure on Business: False Premises and Unpromising Proposals]."
About the Author

Sarah Lain is a Research Fellow at RUSI, where her research focuses on the post-Soviet space, in particular Russia and Central Asia. In 2016 she was appointed specialist adviser to the UK Parliament’s Foreign Affairs Committee, assisting it on its inquiry into UK–Russia bilateral relations. She works on a range of issues, including Russia–UK relations, Russia’s foreign policy in Syria and Ukraine, and the domestic and regional dynamics of Central Asian states.