

# How Did Russian Oligarchs Get Their Wealth?

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**By Shlomo Maital**

ZICHRON YAAKOV, Israel—Kleptopia is the visceral enemy of democracy and well-being and the lifeblood of despots. The world is very late in awakening to the problem, but better late than never.

*Kleptopia: from the Greek klepto, to steal; and topos, a place. A place of theft; a den of thieves.*

There are very few rays of light in the darkness that envelops Russian brutality in Ukraine. Here is a small one.

The obscene stolen wealth of the Russian oligarchs is, at last, being brought out of the shadows. Like bacteria, the Russian kleptopia is succumbing to exposure to light, as Putin’s filthy-rich supporters are sanctioned and their planes and yachts seized. Massachusetts Congressman Seth Moulton has drafted a bill titled Yachts for Ukraine, which would seize oligarchs’ yachts and planes and send the proceeds to benefit Ukraine.

Kleptopia is the visceral enemy of democracy and well-being and the lifeblood of despots. The world is very late in awakening to the problem, but better late than never. And there are key lessons here for Israel too.

## **How many Russian oligarch billionaires are there?**

In 2018 the US Treasury Department released the “Putin List.” It documented 210 Russians, including 114 senior political figures and 96 oligarchs all with a net worth of at least \$1 billion, all considered close to the Kremlin. Twenty on the list were Jewish, many with Israeli passports.

A 2017 study by the US National Bureau of Economic Research estimated that Russian billionaires hold as much as \$800 billion offshore, in the U.K., Switzerland, Cyprus and elsewhere. Their wealth is equal to the wealth of the entire rest of the Russian population of 146 million and is fully about half of Russia’s \$1.7 trillion GDP.

## **How did they get their wealth?**

Take, for instance, Jewish oligarch Roman Abramovich, a close Putin ally, who is said to be worth \$13 billion. He also holds Israeli citizenship under the Law of Return, which grants citizenship to every Jew arriving in Israel.

According to *Haaretz* reporter Shuki Sadeh and the BBC, Abramovich and partners bought a Russian-government oil company Sibneft (now called Gazprom) for \$250 million, before selling it back to the Russian government for \$11.9 billion in 2005.

His lawyers say there is no basis for alleging he has amassed wealth through criminality. But the BBC notes he has already admitted in a U.K. court that he made corrupt payments to help get the Sibneft deal off the ground.

Lately, Abramovich has been scrambling to protect his wealth. *The Wall Street Journal* reported that Ukraine president Volodymyr Zelensky asked U.S. president Joe Biden in a recent phone call to hold off sanctions because he might possibly help with peace talks.

Jewish oligarch Mikhail Khodorkovsky gained control of vast Russian oil fields in 2003, under a program known as "loans for shares," launching Yukos, an oil company. Loans for shares was former Russian president Boris Yeltsin's scheme to ensure his reelection by enriching, and hence solidifying support of, oligarchs. Putin did not invent kleptocracy, he just perfected and expanded it.

Khodorkovsky was at one point said to be worth \$15 billion, through Yukos. But he dared to oppose Putin, who jailed him for a decade on tax-evasion charges and froze his shares.

The lesson to the other oligarchs was clear: Oppose Putin and you will lose everything. You will spend a decade or more in a freezing prison camp in Siberia. Sound attractive to you?

Khodorkovsky left Russia after his release from prison, and, when some of his offshore wealth was unfrozen, he was said to be still worth several hundred million dollars. He constantly pleads with Western leaders to treat Putin as a thug, not a diplomat.

### **How did privatization create the oligarchs?**

Russian industry and resources owned by the state were privatized when the U.S.S.R. collapsed. Sale of state assets was done in a manner that enabled a handful of individuals to capture the lion's share, rather than distribute company shares widely to the people.

According to a PBS Frontline documentary *Rich in Russia*, Russian reformers in the early 1990s decided to sell off state companies by distributing free vouchers exchangeable for shares to the public.

This had been done earlier with success in Czechoslovakia. But it did not work in Russia. Insiders gained control of the vouchers, buying them up for pennies from the public. A staggering 15,000 state firms were sold off in this way. Oligarchs were born overnight.

To a large extent, the same thing happened in Israel, where 90 government companies and subsidiaries were privatized between 1991 and 2003, includ-

ing El Al, ZIM, Bezeq, Koor, Israel Chemicals and the largest banks (nationalized after the 1983 bank stock crisis).

The method used in Israel to privatize state-owned firms was, in my opinion, disastrous: selling control of public assets to tycoons, who bought them by using the government firms' own assets as collateral for huge bank loans, essentially getting the potential wealth for free. Shades of Russia.

A better approach would have been to distribute the state companies' shares to the public and company employees. After all, the shares rightly belonged to us, the people. But it was not done.

The damage was immense. Tycoon Eliezer Fishman ran up debts totaling four billion shekels before declaring bankruptcy. Moti Zisser piled up a debt of one billion shekels to Bank Hapoalim. In 2017, Nochi Dankner went to jail for securities fraud after he inflated his company's stock price in order to raise money when it was struggling financially. His personal bankruptcy totaled 400 million shekels.

Writing in the business daily *The Marker*, Eitan Avriel claims Israel now has third-generation tycoons. Their lifestyle may be more modest than their fathers' and grandfathers', but they still build empires with billions in borrowed money and very little equity of their own, run huge businesses as private firms with no public reckoning, and enjoy a false halo of omnipotence. They employ armies of lobbyists. Again, shades of Russia?

### **What's wrong with someone doing a clever deal?**

There are far more billionaires per capita in the U.S. than in Russia. What's so special about the Russian oligarchs? What's wrong with being very rich?

Russia is the world's largest country in area: 6.6 million square miles. It has 30 percent of the world's natural resources: natural gas, oil, nickel, aluminum and coal. Those resources belong to the people of Russia. So the Russian people should be very well off. But they are not. Overall, they are relatively poor.

Instead of benefiting the people, Russia's resources are confiscated by the rich oligarchs, in return for two so-called favors: blind unqualified support of the despot Putin and a rumored slice of the wealth for Putin himself. This is kleptopia.

True, in the U.S., Jeff Bezos, with a net worth of \$200 billion, makes Abramovich and Khodorkovsky seem like paupers. But Bezos is a tycoon, not an oligarch. He founded and built Amazon and remains its executive board chairman.

Tycoons create value. Oligarchs steal it and capture economic rent through political favors.

Russia still has world-class human capital. But its creative young engineers and scientists do not in general rush to launch start-ups. Why do so when, if you succeed, your 'unicorn'—a start-up worth \$1 billion or more—will likely be stolen by a Putin-supporter kleptocrat? Many are now fleeing Russia.

The tragedy of Russian kleptocracy and autocracy is that the people of Russia have become much poorer than if Russia were an open, free, democratic, honest, clean and competitive economy, leveraging its outstanding human capital. From 1990 to 2000, Israel was gifted with a priceless windfall of a million educated Russians, which fueled its hi-tech boom. They could have done the same for Russia. But not in Putin's kleptopia.

### **What is the real difference between how Russian oligarchs gain wealth and how, say, Israeli start-up entrepreneurs become billionaires?**

Economic rent is income derived from ownership or control over a limited asset or resource. Such income is obtained without any expenditure of effort by the resource holder, and is way above the assets' true market value, often through political influence and politically backed monopolies. More or less by theft.

As the financial weekly *The Economist* explains, rent-seeking entrepreneurs use their relationships with the state to make money. They get state contracts at beneficial prices, form cartels that rip off consumers and spend fortunes to lobby governments for favorable rules. All this, of course, is mostly legal, because the rent-seekers also make the laws or strongly influence them through political donations and highly paid lobbyists.

So the core issue is: Is the nation's wealth driven by value creation—innovative services and products that people love? Driven by creative energy? Or by rents and political favors—crony capitalism?

Russia's crony economy sticks out like a sore thumb. *The Economist* claims 70 percent of the 120 Russian billionaires, holding 80 percent of its billionaire wealth, are crony capitalists, capturing political rents—the highest crony ratio in the world.

In contrast, four fifths of American billionaires, holding 90 percent of total wealth, operate in noncrony sectors.

Crony capitalism impoverishes nations. Russia's per-capita GDP is about the same as China and one quarter that of Israel. It could be, should be, double or triple that of China.

Putin challenges the U.S., claiming Russia is an equal superpower. But his country's economy is less than 10 percent that of the U.S., and only 5 percent of U.S.+EU GDP. His challenge was doomed from the outset. Why did nobody tell him?

Japan made the same mistake in December 1941 in its surprise attack on the U.S. at Pearl Harbor. Eventually, U.S. planes, ships and tanks overwhelmed Japan.

Blame the Russian system. And, under strangling sanctions, Russia is growing poorer by the day. It is a tragedy for the Russian people—and a war crime for its leader, as stated by U.S. Secretary of State Antony Blinken.

### **Why is it so difficult to trace the wealth of oligarchs and make it inaccessible to them?**

The U.S. has targeted Russian oligarchs with a raft of fresh sanctions, including visa restrictions and asset seizures. The U.S. Treasury said it would seize yachts, cash and other ill-gotten gains. The Justice Department has set up a klepto-capture task force for the purpose.

But today it has become so easy to hide wealth and evade paying a single dollar of taxes to anyone. And, ironically, a lot of oligarch wealth is stealthily invested in the U.S. itself.

According to *New York Times* journalists Matthew Goldstein and David Enrich, “wealthy foreign investors like Mr. Abramovich have long been able to move money into American funds using . . . secretive roundabout setups, taking advantage of a lightly regulated investment industry, and Wall Street’s willingness to ask few questions about the origins of the money.”

### **Is Israel corrupt?**

Corruption is the abuse of entrusted power for private gain. Alas, it is on the rise.

Transparency International regularly surveys the perception of corruption prevailing globally and shows that the cancer of kleptocracy is spreading. In 2021, 27 countries had their poorest corruption ranking since the initial 2012 survey. Israel was one of the 27, ranking 36th in the world. New Zealand, Denmark, Finland, Sweden and Singapore were the least corrupt.

### **Why is the U.S. alarmed about Israel potentially harboring Russian oligarchs?**

Conditions here are ideal for them. Take for instance the 2008 so-called Milchan Law, tailored for billionaire Hollywood producer Arnon Milchan, who served as a Mossad agent for 20 years until the mid-1980s. This law exempts new immigrants from reporting foreign income to Israel’s IRS for 10 years after emigrating.

Israel has not yet joined the nations now sanctioning Russia, including the U.S., U.K., Canada, Switzerland, Japan, Australia and Taiwan. U.S. officials are asking why.

Several Russian-Jewish oligarchs already have Israeli passports, according to reporter Sadeh. Abramovich is one. He has given huge donations to Israeli organizations, including tens of millions of dollars to Yad Vashem (which has now stated it is freezing these sums). Following are some.

- Moshe Viatcheslav Kantor bought a large Russian chemical factory, which is now one of the world’s biggest fertilizer producers. He also gave large sums to Yad Vashem, Tel Aviv University and, in 2011, to Benjamin Netanyahu’s campaign.

- Mikhail Fridman was actually born in Lviv, Ukraine. He and partner German Khan control Alfa Bank, Russia’s biggest bank, and were the main donors of the Genesis Prize Foundation, which awards \$1 million each to leading Jewish figures yearly. Fridman has spoken out strongly in opposing Russia’s war.

- Arkady Volozh founded Yandex, Russia’s largest technology company, traded on Wall Street. Volozh is close to Putin and appears on the “Putin List,” but Yandex has not been sanctioned.

Several oligarchs have been long-time residents and citizens of Israel.

- Leonid Nevzlin, who owns 25 percent of the Haaretz Group, renounced his Russian citizenship.
- Michael Cherney, a friend of Finance Minister Avigdor Lieberman, made aliyah in 2004 after making a fortune in Russia in aluminum and coal. He owns Channel 14.

The U.K.'s wealthiest citizen, Len Blavatnik, is Jewish and was born in Odessa. He is said to be worth \$40 billion. After the collapse of the Soviet Union, Blavatnik bought up former state assets and gained vast wealth from Russia's aluminum industry. Blavatnik is the controlling shareholder of Channel 13. He has given large sums to many Israeli charities. There is controversy over his huge donations to Yale University.

### **How wealthy is Putin?**

Russian President Vladimir Putin has ruled Russia since 2000. His rubber-stamp Duma passed a law that could keep him in power until 2036. That would give him longer tenure than Putin's idol Stalin, who ruled Russia from 1922 until his death in 1953.

Putin has single-mindedly shaped a kleptopia that has yielded windfall wealth for his favorites—and for himself. A Swedish economist, Anders Aslund, author of the book *Crony Capitalism: The Path from Market Economy to Kleptocracy*, claims Putin himself has between \$100 billion and \$150 billion in wealth, held in trust by his friends. I believe that is a massive underestimate.

*Fortune* magazine cites Russian investigative journalists who claim the *Scheherazade*, a \$700 million superyacht anchored in Italy's Tuscany, is Putin's. Its captain and crew are sworn to secrecy.

I wonder: Will Putin become a modern King Midas, unable to enjoy those piles of gold? And will his reign really overtake Stalin's?