

BRIEFINGS

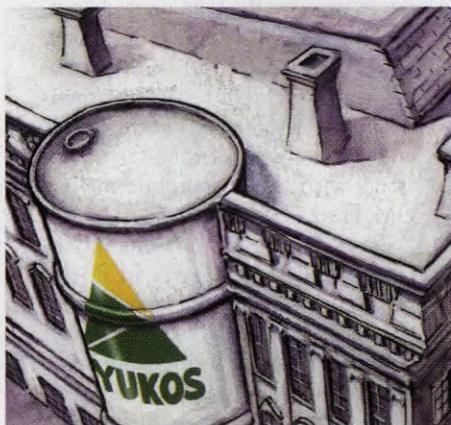
At Issue in the 2004 Election

THE OLIGARCHS' BALL

Washington's oilman-plutocrats court their Russian counterparts

George W. Bush rode into Washington on a pledge that, in the uncharted realm of foreign policy, he would set higher standards of conduct than did the previous regime. On Russia in particular, candidate Bush did not mince words. He decried the war in Chechnya as the brutal blood-letting it was (and still is). He threatened to punish Russia by withholding loans from the International Monetary Fund; in a debate with Al Gore he even claimed that IMF funds had "ended up in Viktor Chernomyrdin's pockets." (Chernomyrdin, Yeltsin's stalwart prime minister, had been Gore's partner in a joint commission that, in the absence of Cold War summitry, was the centerpiece of U.S.-Russian relations during the Clinton years.) And on the subject of the oligarchs, the clutch of Russian "entrepreneurs" who had seized the spoils of the Soviet state and become preposterously rich almost overnight, the governor from Texas railed against their contribution to Russia's twin epidemics of crime and corruption. "The real fundamental question for Russia," he told Jim Lehrer in February 2000, "is what will Russia look like—will she be a market economy, or will she be one of these economies where a favored few elite are able to put money in their own pockets? And it's something that we need to be concerned about, we need to watch very carefully."

For a short time, Bush and company appeared to stay vigilant. In early 2001, when the richest of the oligarchs, Mikhail Khodorkovsky, the then thirty-seven-year-old CEO of the oil giant Yukos, sought a meeting with National Security Adviser Condoleezza Rice, she declined the mogul's request. Khodorkovsky, it seems, did not pass



the requisite intelligence vetting: although Russia's richest man has not been successfully prosecuted to date, he and his corporate associates have been shadowed for years by allegations of everything from tax evasion and embezzlement to murder. A former Communist Youth leader, Khodorkovsky in 1995 acquired the controlling stake in Yukos for just \$309 million, in an auction run by his own bank. By October 2003, when he was arrested and jailed in a Kremlin-led investigation into Yukos, his personal assets exceeded \$8 billion.

The cautious approach in the Bush Administration's dealings with the oligarchs seems not to have lasted long. After the September 11 attacks, as non-Arab oil gained an urgent allure,

the distance grew between declaration and deed. In a series of private meetings—many of which have hitherto gone unnoticed in the press—the administration, its corporate proxies, and even the President's own father have quietly been waging a campaign to charm the oligarchs, the same "favored few elite" whom candidate Bush had discerned to be the clear and present danger in the Russian morass.

Much of the contact with the oligarchs—in particular, Khodorkovsky—has taken place under the auspices of The Carlyle Group, the Washington-based private equity fund that, with more than \$17.5 billion under management and investments in thirteen countries across three continents, is among the world's largest. Carlyle's ties to both Bush administrations are many and well known. James A. Baker III, secretary of state under Bush père and today the younger Bush's special envoy on Iraqi debt, serves Carlyle as its "Senior Counselor," having joined the group in 1993. George H.W. Bush himself held the position of "Senior Adviser" at the firm from 1999 until 2003; other Carlyle officials include his former budget director, Dick Darman, as well as Frank Carlucci, who served as secretary of defense during his vice presidency.

In November 2001, two months after the terrorist attacks on New York and Washington, Khodorkovsky was invited to a lavish Carlyle dinner in London, where he chatted with the former president Bush. Three months later, in February 2002, the oligarch dined again with Bush, this time in a more intimate setting: a private lunch at a

Houston country club, a small gathering to introduce the Russian oilman to the former president's friends in the local oil community. That April, Khodorkovsky's bank announced its intention to invest \$50 million in The Carlyle Group, and he was appointed to the fund's energy board. In June 2003 came the real coup, a dinner at a private home in Beaver Creek, Colorado, the "top-dollar, ultra-plush luxury resort" (as a local paper calls it) just up the valley from Vail. This time, the gathering of a dozen or so included a man with a singular interest in the future of Russia and the petrochemicals industry: Vice President Dick Cheney. This perhaps was the last straw for Putin, whose own campaign pledge to liberate the motherland from the oligarchs' grip has since devolved into favoritism and selective prosecution. By June, Putin already had clashed with Khodorkovsky over the latter's political independence; four months later, Khodorkovsky was seized on a Siberian airstrip, thrown into a Moscow cell, and charged with various long-alleged white-collar crimes.

In Washington, many who note the current President's warm bond with the man in the Kremlin wonder why Carlyle would have taken the political risk of courting the oligarchs. In Moscow, however, they understand. After the attacks on the World Trade Center and the Pentagon, according to a number of published reports, Carlyle lost Arab investors, who either withdrew their money or saw it returned when it had become impolitic to manage. Among these investors was Shafiq bin Laden, one of Osama's numerous brothers. On September 11, 2001, Shafiq was at the Ritz-Carlton hotel in Washington, attending a Carlyle conference. Carlyle returned Bin Laden's investment, reportedly a paltry \$2 million. But many believe that millions more have been returned or withdrawn. "They need the oligarchs' money more than ever," says a Moscow financier who has long had dealings with Carlyle. "They're replacing the Bin Ladens with the Potanins and the Khodorkovskys."

"Potanins" refers to the Kremlin's new favorite oligarch, Vladimir Potanin, the forty-two-year-old banker who controls the Norilsk Nickel metals empire. Last June, in an instructive example of the oligarchs' new clout in Washington, Norilsk was able quietly to acquire the Stillwater Mining Company of Montana, the United States' only producer of palladium—among the most sought-after of the "platinum group metals," known collectively in the metals trade as PGM. Only a few corners of the planet produce palladium, platinum's lesser-known relative; the metal has a number of uses, but since the 1970s it has been most prized as a vital component of catalytic converters. The supply of palladium has fluctuated wildly in recent years, as has its price on the London exchange, topping \$1,000 an ounce in January 2001. Stillwater controls a twenty-eight-mile reef that boasts "the highest grade PGM ore body in the world" and has a clutch of long-term contracts with the automobile makers GM, Ford, and Mitsubishi.

To ensure the historic union, Norilsk hired Baker Botts LLP, the Houston-based law firm whose senior partner is James A. Baker III. Baker performed his task well, and quickly. The initial contact had not come until January 2002, when Stillwater's CEO met a Potanin envoy at an industry forum in Florida. By September all parties convened in New York to talk terms, and on November 20, 2002, Norilsk announced its intention to buy Stillwater for \$341 million: \$100 million in cash and the balance in palladium, some 876,270 ounces. The following March, when Norilsk submitted five nominees for Stillwater's new nine-member board, atop the list was Craig L. Fuller, now the CEO of the National Association of Chain Drug Stores but formerly the chief of staff for Vice President George H.W. Bush, the co-chair of his presidential transition team, and chair of the 1992 Republican National Convention.

Russians have bought other American assets in recent years: for example,

Getty Oil and Rouge Steel are now both oligarch-owned. The Stillwater deal, however, was unprecedented in its scope and significance, and as such it required muscular lobbying on both sides of the Atlantic. The Russians needed export approval from the Central Bank, while the Americans had to calm the antitrust concerns of the Federal Trade Commission and satisfy the Committee on Foreign Investment in the United States (CFIUS). CFIUS, an interagency body led by the Treasury Department, governs the Exon-Florio Amendment, the Defense Production Act provision that requires governmental review of foreign transactions that may have a bearing on U.S. national security.

Fortunately for Potanin, the transaction had help at the highest levels. On June 1, 2003, President Bush flew to St. Petersburg to help his friend Vladimir Putin celebrate his hometown's 300th birthday. Although not on the public agenda, the Stillwater transaction was inserted into the President's briefing book. In a tête-à-tête in the lavishly restored Konstantin Palace, the two presidents discussed the deal. Days later, Potanin went to the Kremlin to apprise Putin of the terms. On June 18, Sergei Mironov, a loyal Putin mouthpiece who heads the upper house of Russia's parliament, announced the government's support.

In the United States, too, the federal bodies complied. The deal cleared Exon-Florio on January 17, 2003. To the surprise of many in the PGM industry, who noted that together Norilsk and Stillwater control more than 50 percent of the palladium market, the FTC granted early termination of the waiting period for the transaction. That same day in Denver, Stillwater shareholders voted their approval, and on June 23 the deal was done. By then, however, palladium had declined to a nearly six-year low, and so the closing price had dropped to \$257 million—nearly \$100 million less than the sale price announced just seven months earlier. Industry analysts, noting that the bulk of the price for Stillwater came in metal, wonder if Norilsk had "destocked"—i.e., dumped

metal—only to sit back, watch the price crash, and wait to buy Stillwater. In the eight months since the deal closed, the price of palladium has risen 36 percent, to \$242 per ounce.

Montanans, meanwhile, never did warm to the deal, nor did many industry analysts. Tim Wood, a columnist for the news site Mineweb, marveled that “just ten years after the Cold War effectively ended, the once mortal enemy now stands to control half of the world’s supply of palladium with its foot right in America’s heartland.”

The battle between Putin and Khodorkovsky has left the Bush Administration exposed. Since the oilman’s imprisonment—and that of his partner, Platon Lebedev, himself a former Carlyle adviser—the President, the Vice President, and Condoleezza Rice have kept mute. But their envoys from the neoconservative brain trust mounted a defense of Russia’s richest man that, in the unseemliness of its lacquered hyperbole, was bold to say the least. First came Richard Perle, resident fellow of the American Enterprise Institute (AEI), which had hosted the Beaver Creek forum, who told anyone who would listen that Khodorkovsky’s arrest had revealed Putin’s true, nasty nature. Perle was among the first to call for ousting Russia from the G8 and for barring Russian companies from their prewar Iraqi oil deals. After Lebedev’s arrest, in a talk at the Carnegie Moscow Center, Perle thundered that “it’s possible already to say that real damage is being done to the prospects for future Russian economic growth and development by what appears to be an arbitrary, capricious, and vindictive campaign against a private company.” Perle did not add that the Carnegie Moscow Center is a satellite of the Carnegie Endowment for International Peace, in Washington, which has received a grant from Yukos—\$500,000 of a potential three-year grant of \$1.5 million.

In the op-ed pages of the *Washington Post*, Bruce Jackson—a protégé of

Cheney, Perle, and Paul Wolfowitz, and most recently a VP at Lockheed Martin—put Putin in the company of Hitler, declaring that “in dollar terms, we are witnessing the largest illegal expropriation of Jewish property in Europe since the Nazi seizures during the 1930s.” (The *Post* identified Jackson merely as the “president of the Project on Transitional Democracies.”) Next up, in the *New York Times*, Perle’s colleague Leon Aron, fellow AEI scholar and noted Yeltsin biographer, cast Khodorkovsky as an ardent philanthropist, calling him “the scapegoat for the misdeeds of the 1990’s.” (Aron failed to mention—as did the *Times*—that AEI, too, had benefited from the philanthropy of the fallen oligarch; Yukos had also pledged \$500,000 to AEI, of which AEI has to date received only the first tranche, \$125,000.)

Putin, it seemed, had driven a wedge through the heart of the Bush foreign-policy establishment. What had happened? The answer, it would appear, is the thirst for non-Arab oil, which has prompted a fundamental shift in Russia policy since September 2001. In the National Security Council and the State Department, officials complain that the Vice President’s office has made an end run around them on Russia, and that on all the issues—Putin, the oligarchs, Chechnya—the policy has been entirely focused on petrochemicals. “Over the last couple of years, the appreciation has grown of the potential scale of Russia as the major alternative for oil resources, as an offset to the Middle East,” notes the Pulitzer Prize-winning oil historian and industry consultant Daniel Yergin, who himself served on Carlyle’s energy board alongside Baker and Khodorkovsky until resigning last year. “After 1998 a lot of people gave up on Russia, but the last couple of years have shown dramatic growth, what some in the industry call ‘the Russian oil miracle.’ There are not a lot of places to go. . . . Russia now looms much larger.”

The myopia of such a foreign policy notwithstanding, the oligarchs have quickly learned how to thrive within it. Their flexibility comes

naturally: trade and commerce in Russia, since the days of the Romanovs, have followed the patrimonial model, in which courtiers who wish to succeed must “kiss the ring,” as the Russians like to say. Moscow bankers and brokers are already inured to the spectacle of oligarchs beseeching the Kremlin to bless their acquisitive instincts. For them the success of the oligarchs abroad, far from symbolizing Russia’s post-Cold War transition to a market economy, merely delivers a bitter and familiar lesson: that as inseparable as business and politics have always been in Russia, these days, at least, matters in America are not so very different.

—Andrew Meier

EXECUTIVE PRIVILEGE

Inside corporate America’s homeland security hot line

Last April 8 and 9, more than seventy people, including policymakers from the Department of Homeland Security (DHS), the White House, the Treasury Department, and the FBI, gathered in a conference room in Washington, D.C., to consider a harrowing scenario. In it, scores of feverish people flood into Chicago-area hospitals, coughing up blood. Doctors recognize the symptoms to be those of pneumonic plague, a highly contagious disease that causes respiratory failure within seventy-two hours unless immediately treated with powerful antibiotics. Short on supplies, the city contacts DHS in Washington. But there, officials are already scrambling to contain another disaster: an inexplicable failure in the accounting systems of two of New York’s largest banks. Both attacks, the scenario continues, are the work of terrorists who have unleashed a simultaneous, two-city attack.

The exercise was designed to hone the decision-making capabilities not of public-health officials or of police commissioners but of high-level cor-