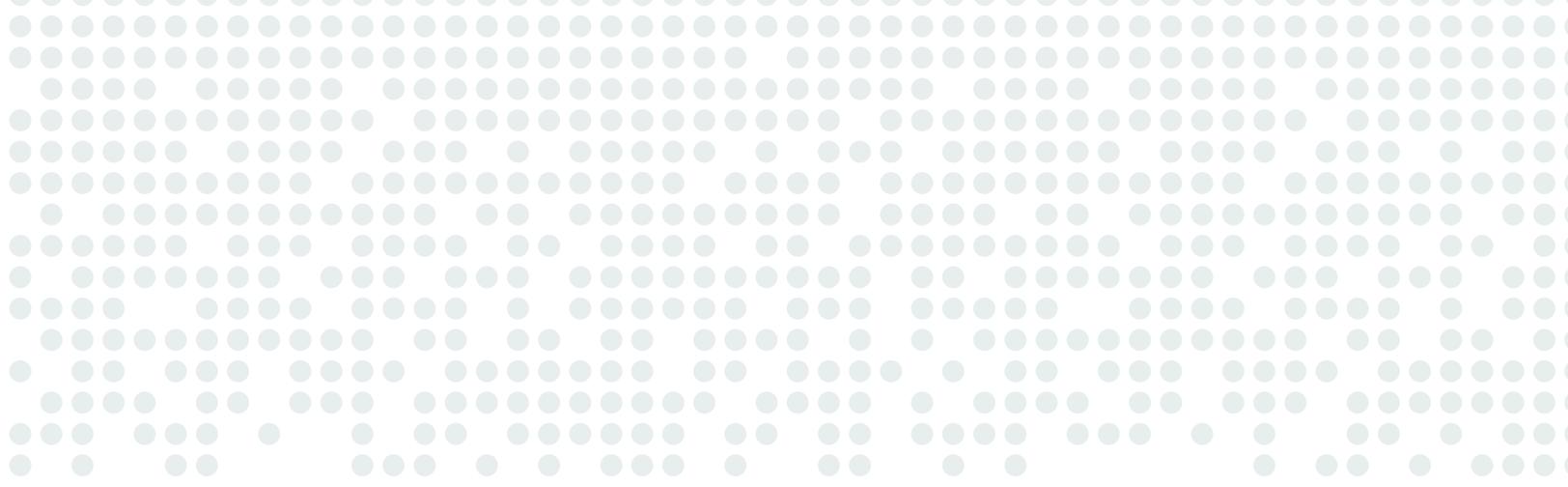


THE RISE OF REIDERSTVO: IMPLICATIONS FOR RUSSIA AND THE WEST

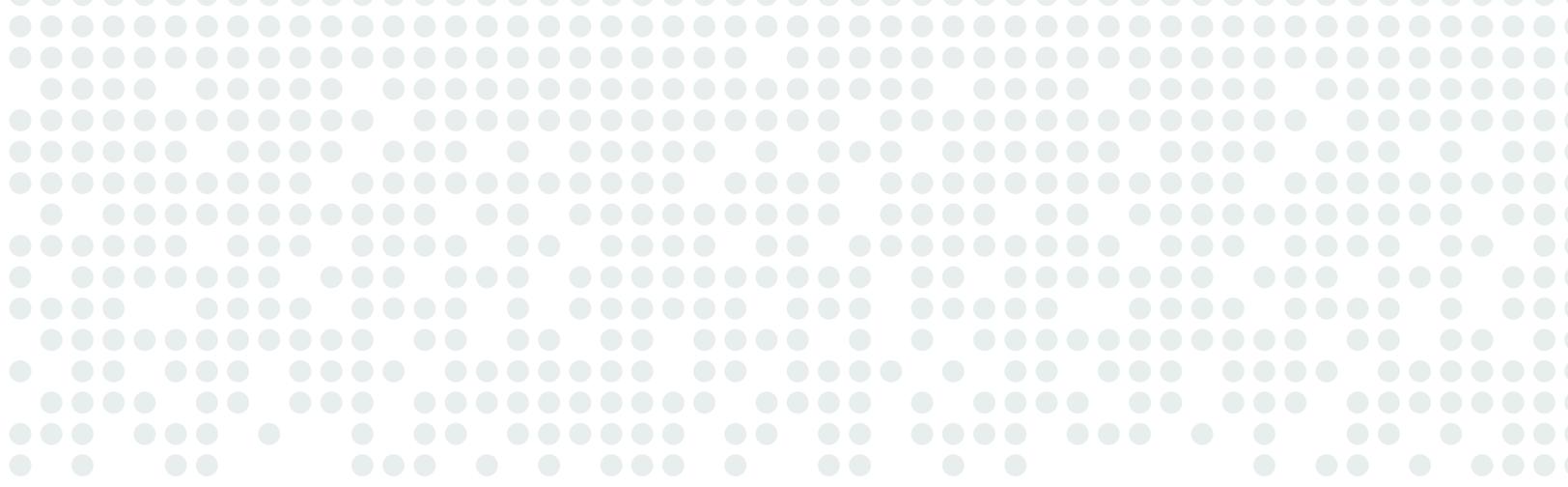
BY DR. LOUISE SHELLEY AND JUDY DEANE

MAY 9, 2016



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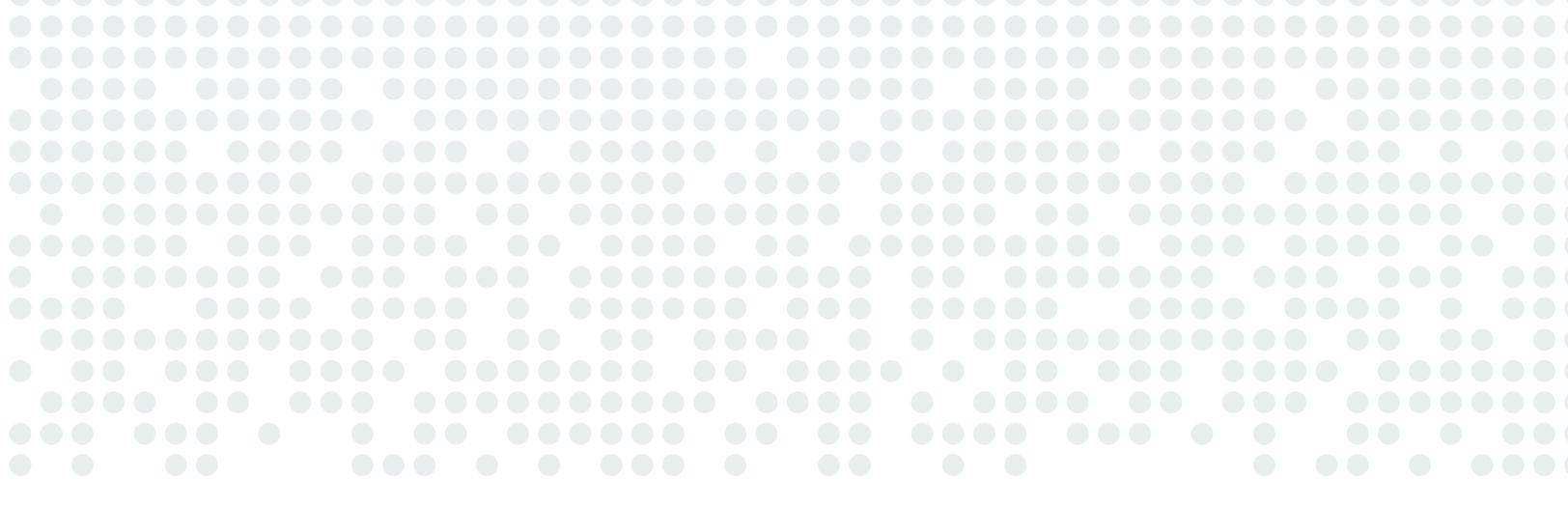
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Her most recent book: *Dirty Entanglements: Corruption, Crime and Terrorism* has been published by Cambridge University Press this year. She is the author of *Human Trafficking: A Global Perspective* (Cambridge 2010), *Policing Soviet Society* (Routledge, 1996), *Lawyers in Soviet Worklife* and *Crime and Modernization*, as well as numerous articles and book chapters on all aspects of transnational crime and corruption.

From 1995-2014, Dr. Shelley ran programs in Russia, Ukraine and Georgia with leading specialists on the problems of organized crime and corruption. She has also been the principal investigator of large-scale projects on money laundering from Russia, Ukraine and Georgia and of training of law enforcement persons on the issue of trafficking in persons as well as wildlife trafficking. She has testified before different House and Senate Committees on transnational crime, human trafficking financial crime and terrorism. Professor Shelley served on the Global Agenda Council on Illicit Trade and Organized Crime of the World Economic Forum (WEF). She has spoken at various international fora and at many universities both in the United States and abroad and appears regularly in the media in the US and abroad.

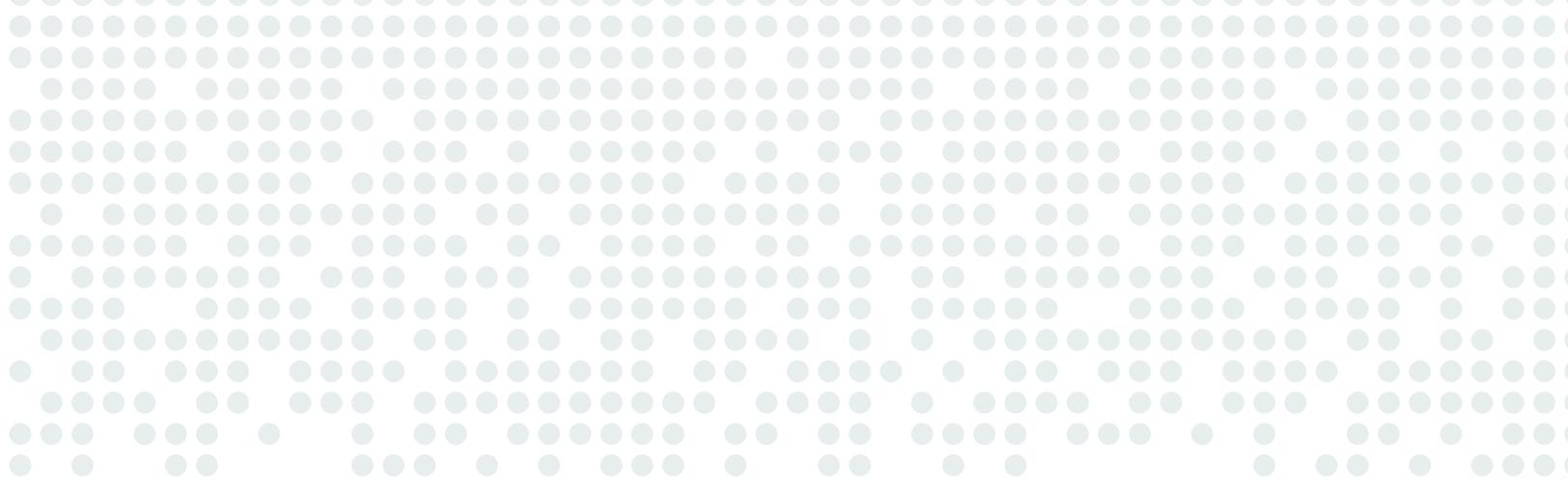


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SUMMARY

- Russian corporate raiding is not new. Over time it has evolved into a systematic taking of assets from legitimate businesses for personal profit following a four-stage process: preparation, negotiation, execution, and legalization.
- Illegal raiders capitalize on the weakness of Russian institutions, endemic corruption and abuse rule of law, media, and government under the tacit acquiescence of Russian leaders in order to strip companies of assets and generate these personal profits.
- This practice is known as “reiderstvo.” It gains its distinction from Western practice of corporate raiding specifically through the use of destructive, corrupt, and violent means to make massive and rapid profits by selling off assets and laundering the proceeds.
- Raiding is contributing to Russia’s current unfriendly business climate and to declining investor confidence in the country.



INTRODUCTION

Illegal business raiding and asset grabbing in Russia represent fundamental challenges to the rule of law and are undermining Russia's business environment. Rather than allowing the development of an independent and free business community, Russian President Vladimir Putin's government has used economic and legal institutions to funnel resources to trusted elites close to the regime. This has been accomplished through the use of corporate raiding and asset grabbing. The result is that raiding has and continues to undermine Russia's ability to attract international investment, limiting GDP growth and vital integration with the international economy.

Few understand the real scale and significance of asset grabbing in Russia. That is because from Yukos to Rudgormash, from Yevroset to ToAZ, raiding has been reported on a case-by-case basis. In doing so, it has been difficult to see the forest from the trees, namely the thousands of businesses of all sizes attacked by raiders every year. This study aims to

examine in greater detail some of the most obvious cases and demonstrate that a systematic pattern of asset grabbing has emerged in Putin's Russia, with familiar and predictable tools, tactics, and consequences.

What's more, raiding is still on the rise and the pattern is growing more disturbing. While the raiders of the past were part of criminal groups, raids in today's Russia are conducted by government officials and businessmen who hire criminals as their surrogates. Raiders misuse a panoply of legal institutions to tilt the scales against business rivals and put a thin legal veneer over the theft of assets and destruction of enterprises. Their maneuvers extend to pressuring businesspeople beyond Russia's borders through the abuse of a variety of international treaties, legal mechanisms and, most especially, Interpol arrest warrants.

This report will examine the rise of business raiding in Russia, looking at the startling increase in the number of raids, profiles of raiders, and the myriad and systematic



tactics — the playbook — used to attack targets. We will examine what the rise of raiding means for Russia's economy, business climate, and foreign investment.

This report is especially timely as raiding and economic corruption have serious consequences for the Russian economy and for the businesses that operate within Russia at a time when the Russian economy is already challenged.¹ Western companies, even

before geopolitical tensions heightened in 2014, noted that lack of judicial protections for businesses were making it more difficult for their businesses to operate. Now, facing recession, historically-low oil prices, and ongoing conflicts in Ukraine and Syria, Russia's economy cannot hope to recover without serious efforts to address this issue and support business development, economic reform, and real legal protection for entrepreneurs and companies.

Without giving this practice the attention it deserves, our analysis suggests that this phenomenon will only become more prevalent as Russia's economic situation deteriorates, making it harder for Russia to recover from its current economic crisis and regain its position as a legitimate global power.

WHAT IS CORPORATE RAIDING IN RUSSIA?

RAIDING IN RUSSIA IS DESTRUCTIVE, CORRUPT AND VIOLENT

In most countries, “corporate raiding” refers to cases in which a minority shareholder or investor buys a stake in a publicly-traded company, sometimes with the intention of changing the management, but always with the goal of increasing share value. Hostile takeovers, proxy fights, and activist campaigns can be challenging for management, who risk losing control of their companies and being fired. These contests are governed by takeover rules and corporate law, meaning that the news is likely to say in the business sections of newspapers. In Russia, “corporate raiding” refers to 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 type of raiding is not limited to publicly-traded corporations; however, in Russia these tactics have been used to seize assets from companies of all sizes.

Some observers see corporate raiding, known as “reiderstvo” in Russian, as

less serious in modern Russia compared to the gang wars and unvarnished violence that marked privatization in the 1990s. However, it is important to differentiate the two. In the 1990s, raids were mostly carried out by criminal organizations, who used violent tactics and bribed government officials to look the other way when necessary. But in the 21st century, the originators of raids have increasingly been government officials and businessmen — some at the local level, and others very highly placed. They hire organized criminals to do some of their dirty work, but also take advantage of weak legal institutions and a complacent international system to shift assets for profit.

REIDERSTVO: THE RUSSIAN WORD FOR ILLEGAL CORPORATE RAIDING (ALSO KNOWN ASSET-GRABBING) IMPLIES THE ACQUISITION OF A BUSINESS OR PART OF A BUSINESS THROUGH THE USE OF ILLEGAL TACTICS SUCH AS BRIBERY, FORGERY, CORRUPTION, INTIMIDATION AND VIOLENCE.

HOW MANY RAIDS ARE HAPPENING?

RAIDING IS ON THE RISE IN RUSSIA

Reliable statistics can be hard to come by in Russia, but it is clear that raids are a big, underreported problem that is increasing rapidly. During his address to the Federal Assembly in December 2015, President Putin himself noted that investigative authorities had opened nearly 200,000 cases of “economic crimes” in 2014. One known tactic of corporate raiders is to have business owners arrested on fabricated economic crime charges in order to take control of the company while the owners are tangled in court proceedings. Of those 200,000 economic crime cases, only 15% resulted in a conviction, but a full 83% of businessmen still ended up losing control of their businesses. Even President Putin admitted that these

figures suggest companies were harassed, intimidated, robbed and released.¹

It also seems clear that the number of raids continues to rise. An October 2015 Novaya Gazeta article cited a 50% increase in economic crime prosecutions in the first six months of 2015, attributing the increase to “siloviki” (Russian politicians with backgrounds in the military and security services) seeking to surmount their “personal” economic crises in the wake of the broader Russian economy’s suffering.² With Russia’s economy tied so closely to the price of oil, many siloviki are seeing their previously profitable companies stagnate. The result is an intense fight for control of the profitable assets



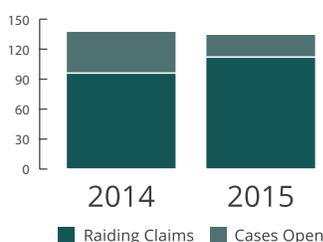
¹ President of Russia (2015) The Presidential Address to the Federal Assembly (Moscow), <http://en.kremlin.ru/events/president/news/50864>, accessed February 2, 2016.

² Chelishcheva, V. (2015), "Rassledovanie: poprobui tut ne syad" [in Russian], <http://www.novayagazeta.ru/inquests/70380.html>, accessed March 29, 2016.

that remain. While increased policing might explain some of this rise, a spike in raiding is a more likely explanation.

Legal avenues exist for companies to report alleged corporate raiding to authorities, but very few cases are ever investigated. Russia's main federal enforcement authority, the Investigative Committee, completed investigations of just 112 raiding claims in 2015, 96 in 2014, and 104 in 2013.³ Only a small portion of them ended in criminal courts. For example, in Moscow, the Investigative Committee opened 42 criminal cases against raiders in 2014 and 23 cases in 2015.⁴ Yet, there are no official statistics on how many of these cases were resolved in favor of legal owners.

Raiding Cases in Russia



The chasm between the number of (likely) cases of raiding and the number of investigations has several explanations. The Russian Criminal Code does not define or punish reiderstvo itself, instead classifying separate raiding acts as fraud (Article 159), official forgery (Article 292) or any number of other smaller and fragmented crimes. Victims also often fear appealing to the authorities given the many cases where law

enforcement and members of the judiciary are found to be working with the raiders.

There are a number of factors facilitating the rise of illegal business raiding in Russia. The Center for Political Technologies, which undertook the most complete study of raiding in 2008 (Raiding as a Social, Economic and Political Phenomenon in Contemporary Russia), lists among the most important contributing factors: (1) large-scale corruption, (2) inefficient law enforcement and the judicial system, and (3) loopholes in the legislation. The connection with corruption is obvious, since corruption in law enforcement and the judicial system facilitates state predations on businesses. One of the members of the State Duma interviewed by The Center for Political

SNAPSHOT 1: WHAT DOES IT COST TO ORGANIZE A RAID?

The corruption of Russia's bureaucrats, law enforcement and judicial system has become so commonplace that it is possible to cite an average "price list" for specific corrupt actions. According to the report by the National Anti-Corruption Committee and Phoenix Group based on interviews with more than 100 businessmen and lawyers in Russia, it costs from \$5,000 to \$10,000 to falsify a company's documents; \$10,000 to secure a delay in court proceedings; and \$50,000 to close a criminal investigation. In low-profile cases, decisions of judges can be bought through direct bribing or offering a share in illegal proceeds. Bribe costs vary across different regions. For example, a false judicial judgment in the capital costs from \$50,000 to \$200,000 while the price at the regional level ranges from \$10,000 to \$20,000.^{5, 6}

³ Investigative Committee of the Russian Federation (2016) Statistics (Moscow), <http://sledcom.ru/activities/statistic>, accessed February 2, 2016.

⁴ Information Agency RBK (2016) "SKR otchitalsia o sokrascchenii chisla reiderskikh zakhvatov v Moskve vdvoe" [in Russian], February 11, <http://rbc.ru/rbcfreenews/56bc49b69a79473eb1757746>, accessed April 6, 2016.

⁵ Osadchuk, S. (2008) "Bribe to Illegally Seize a Firm Put at \$30,000," The Moscow Times, September 8.

⁶ Center for Political Technologies (2008) "Reiderstvo kak sotsial'no-ekonomicheskii i politicheskii fenomen sovremennoi Rossii" [in Russian], (Moscow), p. 64. 64.

Technologies describes this situation as follows: *“On the one hand, law enforcement authorities are themselves involved in it [corporate raiding]. On the other hand, when some of them want to interfere, they get a rap on the knuckles because large seizures are often backed by people in power. This is why, today, the law enforcement authorities either play the role of observers or the role of participants in raider attacks. And very rarely do they act as an agency responsible to terminate such a disgrace.”*⁷

When a law enforcement agency tries to oppose illegal raiders, it often encounters resistance from other state agencies or even internal departments within the same agency. Some experts suggest that competition among various agencies and their departments looks more like corporate struggles motivated by a desire to seize prey than efforts to defend the rule of law.⁸

The criminal case of the Tambov criminal group led by Vladimir Barsukov illustrates the difficulties in investigating illegal raiding. In 2012, the Kuibyshev District Court of Saint Petersburg sentenced Vladimir Barsukov to 15 years of imprisonment. As

the Investigative Committee of the Russian Federation reports: *“The investigation of this criminal case, as well as a number of other crimes committed by the Tambov organized criminal group under the leadership of Vladimir Barsukov was particularly difficult. Based on the operative information about corrupt connections of this criminal group with the government and law enforcement agencies in Saint Petersburg, it was decided to transfer the investigation of this criminal case to special teams of the Investigative Committee’s Main Investigation Department in order to avoid pressure on its leadership. The most experienced investigators from Moscow were sent to Saint Petersburg. During the investigation of crimes committed by the Tambov group, the investigators faced active resistance from the accused group who used significant financial and administrative resources to influence witnesses. Moreover, they even attempted to discredit the leaders and members of the investigation teams.”*⁹

This example suggests that justice in Russia is privatized by various informal networks of public officials and clans who, under the

guise of law enforcement and public interests, pursue their private and selfish ends. Given this relative impunity, it is little wonder that raiding is increasing so rapidly: the low risk of prosecution makes raiding one of the most profitable crimes in modern Russia. One Russian lawyer interviewed by The Center for Political Technologies put it this way: *“According to the most conservative estimates, about ten thousand raider attacks happen annually; in reality, this number is even bigger, and only about one hundred raiders are convicted each year... It turns out that only one in a thousand raiders is prosecuted. In fact, the risk is minimal. It might be scarier to drive a car.”*¹⁰

Or, as one raider interviewed by Luke Harding of the Guardian explained, the economics are clear: *“It costs around \$120,000-\$170,000 to bankrupt a n average company. But you can then make \$3-4m profit.”*¹¹

“THE LOW RISK OF PROSECUTION MAKES RAIDING ONE OF THE MOST PROFITABLE CRIMES IN MODERN RUSSIA.”

⁷ Center for Political Technologies (2008) “Reiderstvo kak sotsial’no-ekonomicheskii i politicheskii fenomen sovremennoi Rossii” [in Russian], (Moscow), p. 46.46.

⁸ Center for Political Technologies (2008) “Reiderstvo kak sotsial’no-ekonomicheskii i politicheskii fenomen sovremennoi Rossii” [in Russian], (Moscow), p. 45-46. 45-46.

⁹ Investigative Committee of the Russian Federation (2012) “Vynesen prigovor po ugovolnomu delu o vymogatelstve bolee 20 millionov ruble” [in Russian], <http://sledcom.ru/news/item/515053>, accessed January 10, 2016.

¹⁰ Center for Political Technologies (2008) “Reiderstvo kak sotsial’no-ekonomicheskii i politicheskii fenomen sovremennoi Rossii” [in Russian], (Moscow), p. 23. 23.

¹¹ Harding, L. (2008) “Raiders of the Russian Billions,” The Guardian, June 23.

WHO GETS RAIDED?

PRACTICALLY ANY VALUABLE COMPANY, ORGANIZATION OR ASSET CAN BE THE TARGET OF A RAIDER ATTACK

Unlike corporate raiding in the West, Russian reiderstvo can target almost any asset, from the smallest shop or home to the largest oil company. Assets owned by individuals, corporations, public institutions and even state-owned entities have all fallen victim to corporate raids, although small businesses with few resources to protect themselves are the most common target.

Raiders may focus on the company itself, or simply take over the company's commercial property, paying off officials to re-register and then resell the land. Once a property has passed through several owners — real or fictitious — it becomes impossible for the original owners to reclaim, even if a court later rules the initial takeover illegal. Public organizations, such as schools, universities, hospitals, museums and theaters, are often raided, particularly if they sit on valuable real estate. In large cities like Moscow, apartment raiding has become popular and profitable, while agricultural land is also targeted, especially in the vicinity of the larger cities.

Raids on companies owned by, or partnered with, foreigners are rare, but tend to attract the most public attention. In the late 1990s and early 2000s, the oil industry experienced numerous conflicts over the redistribution of resource rents, with large companies such as YUKOS and TNK/BP falling victim to highly-publicized raiding attacks orchestrated at the highest levels of government. More recently, the energy sector appears to be less of a target, no doubt because most energy assets are now owned by a small group of high-ranking officials and oligarchs. Nonetheless, the well-publicized raids on firms with foreign participation have played a significant role in discouraging foreign — especially Western — investment. William Browder, co-founder of the Hermitage Capital Management investment fund and critic of Vladimir Putin, once noted, “anyone who would make a long-term investment in Russia right now, almost at any valuation, is completely out of their mind.”¹²

¹² Shao, M. (2009) “Don't Invest in Russia Today, Warns Bill Browder,” Stanford GSB News, <http://www.gsb.stanford.edu/news/headlines/browder09.html>, accessed April 6, 2016.

SNAPSHOT 2: RAIDING A MUSIC SCHOOL

Raiders tried to take over the Taneev School, Moscow's best-known music school for children, soon after a 12-year-long renovation of its building in central Moscow was completed. The saga started in 2014, when inspectors from the Federal Consumer Protection Agency closed the building down, allegedly because of the presence of ammonia in the building. The well-connected parents responded with their own expert inspection — which found no evidence of ammonia — a Facebook campaign, and a petition to President Putin and the Mayor of Moscow on Change.org that garnered 500 signatures on its first day. The situation does not appear to have been resolved, but the school continues to function.¹³

Illegal raiding continues to be one of the most severe threats to domestic and foreign investors. Recently, raiders have turned their attention to intellectual property, with anything from musical, literary and artistic works, to discoveries and inventions, and even painters' workshops targeted. The Center for Political Technologies documented several cases where Russian research institutes were the victims of illegal raids, including the Institute for Designing Metallurgical Plants Gipromez, the Institute of Human Ecology and Environmental Health, and the Institute of Information Technologies.¹⁴ Apart from their intangible assets, Russian research institutes own valuable buildings. Yet, they generally do not have funding for high-quality lawyers who can provide protection from

raider attacks. Given that intellectual property rights do not enjoy strong protection in Russia, the risks to the raider in this sector are even lower.

This report focuses primarily on the larger, more economically significant cases, but it is worth noting that the economic and social cost of small-scale raiding goes beyond the simple value of the lost assets. Constant raiding can have a chilling effect on social cohesion and trust in a community, hampering the development of entrepreneurship, the establishment of small businesses, the creation of employment, and diversification of the economy.

¹³ Pal'veleva, L. (2016) "Schast'e i beda shkoly Tanneva" [in Russian], RadioFreeEurope/RadioLiberty, April 7, <http://www.svoboda.org/content/article/27054012.html>, accessed April 6, 2016.

¹⁴ Center for Political Technologies (2008) "Reiderstvo kak sotsial'no-ekonomicheskii i politicheskii fenomen sovremennoi Rossii" [in Russian], (Moscow), p. 33.

WHO ARE THE RAIDERS?

THE CENTER FOR POLITICAL TECHNOLOGIES AND OTHER EXPERTS DISTINGUISH FOUR DIFFERENT TYPES OF CORPORATE RAIDERS, AS RAIDING HAS GROWN MORE SOPHISTICATED AND MOVED INTO THE WORLD OF WHITE-COLLAR CRIME

Criminal organizations and gangs were the original raiders. Beginning in the 1990s, their violent raids involved the armed seizure of assets and often the outright murder of business owners. They were perpetrated not just by criminals but also by former law enforcement and security officers with close ties to state agencies.

For example, beginning from the mid-1990s, the Tambov criminal group led by Vladimir Barsukov, one of the most powerful criminal leaders in Saint Petersburg, committed numerous murders of business owners, extortion of entrepreneurial property, and raider grabs of enterprises and firms, including the shopping mall Elizarovskiy, the confectionary Krupskaya, and numerous small shops.¹⁵

Legalized owners were able to convert assets illegally obtained in the 1990s into legalized businesses in the 2000s. They continue to use illegal methods, but maintain a lower profile than gangs and retain connections with the judiciary, local governments, and with law enforcement.

This group can include minority shareholders and businessmen who own shares while pursuing extra-legal means of securing ownership over a company, such as instigating bogus criminal cases against legal owners, launching black PR campaigns, and entering false information in shareholder registers.

A good example is the raiding case of TogliattiAzot (ToAZ), the largest ammonia producer in Russia. Beginning in 2005, a series of minority shareholders, most recently represented by Dimitry Mazepin of Uralchem, have been pursuing different legal and extra-legal methods “to put pressure on the leadership and employees of the plant, to discredit it in the eyes of the business community, as well as to undermine the confidence of the public.”¹⁶

Private-sector white-collar criminals educated in business-related disciplines (law, economics, finance, accounting, psychology) have pioneered the use of quasi-legal methods to seize assets in the post-privatization period.

¹⁵ Investigative Committee of the Russian Federation (2012) “Vynesen prigovor po ugovnomu delu o vymogatelstve bolee 20 millionov rublei” [in Russian], <http://sledcom.ru/news/item/515053>, accessed January 10, 2016.

¹⁶ Togliattiazot Press Service (2014) “The Press Release” [in Russian], December 5, <http://www.toaz.ru/rus/press/document1715.phtml>, accessed January 10, 2016. Mefod’eva, O. (2010) “Reiderstvo v Rossii zhivet i protsvetaet” [in Russian], <http://politcom.ru./9787.html>, accessed March 18, 2016.

Some of these private-sector criminals have founded banks that initially build up relations with borrowers in order to seize their assets later. Others have created entire companies that specialize in reiderstvo and offer their services to would-be raiders. In 2009, a Moscow court closed down the notorious Rossiya Investment Company and arrested seven of its leading employees, but not before the company had raided at least 50 companies.¹⁷

PRIVATE-SECTOR WHITE-COLLAR CRIMINALS EDUCATED IN BUSINESS-RELATED DISCIPLINES HAVE

PIONEERED THE USE OF QUASI-LEGAL METHODS TO SEIZE ASSETS IN THE POST-PRIVATIZATION PERIOD.

Public-sector white-collar criminals include corrupt policemen, security officers, judges, tax inspectors, local and regional administrators, and other public officials. Raiding has always required the acquiescence of public servants, but now politicians and their family members are playing a growing role in initiating raids and reaping the spoils.

The case of the open joint-stock company Agrofirma Engel'skaya

illustrates this type. In 2008 raiders had the director of the major food producer from the city of Saratov arrested, first on weapons charges, then on drug charges. While the case was pending, the raiders held an extraordinary meeting of the shareholders to have the director ousted, enlisting the support of several local officials for the change in leadership. The officials, who included the regional director of the State Property Fund, then reportedly collaborated with the new director to sell off the company's assets, then valued at 1.5 billion rubles, for a total of 33.5 million rubles.¹⁸

SNAPSHOT 3: USING EVERY ANGLE — THE CASE OF YEVROSET

The Yevroset case offers insights into the variety of methods that raiders can use on a single target when they meet resistance. In the early 2000s raiders set their sights on Yevroset, a highly successful mobile phone retailer founded by Yevgeny Chichvarkin and Timur Artiyemev in 1997. By 2005, Yevroset had built up a franchising network of 3000 outlets throughout the former Soviet Union and controlled a major share of the mobile phone market. Starting in 2002, Ministry of Interior officials made three separate raids, seizing and confiscating Yevroset's imported cell phones, for a total of 1.4 million handsets. Chichvarkin and his colleagues were successful in getting many of the headsets returned and even getting the offending officials fined, and in one case imprisoned.

A few months later, raiders followed up by getting a tax case opened against one of Yevroset's suppliers, and searching the homes and offices of all of the top managers. The next step was to arrest and charge a number of Yevroset's employees with kidnapping and extortion of a former employee who they had suspected of embezzlement. They also opened up tax cases against Yevroset itself, hoping to add to its already heavy debt burden. After several years, Chichvarkin and Artiyemev agreed to sell the company at below market price to an oligarch, who immediately turned around and sold 49.9% to a competitor at a large profit. Even after the sale, however, new charges were brought against Chichvarkin and Artiyemev, who fled to London in 2008. The authorities issued a red notice through Interpol to have them arrested and brought back for trial. Chichvarkin's mother, who had remained in Moscow, died under unexplained circumstances. The British government refused to honor the red notice.¹⁹

¹⁷ Mefod'eva, O. (2010) "Reiderstvo v Rossii zhivet i protsvetaet" [in Russian], <http://politcom.ru/9787.html>, accessed March 18, 2016.

¹⁸ Beitman, A. (2012) "Corporate Raiding in Saratov," June 25, <http://tracc.gmu.edu/2012/06/25/corporate-raiding-in-saratov/> accessed March 29, 2016.

¹⁹ Gans-Morse, J. (2012) "Threats to Property Rights in Russia: From Private Coercion to State Aggression," *Post-Soviet Affairs*, 28(3), p. 285.285.

HOW DO THEY RAID?

THE TACTICS AVAILABLE TO THE PROSPECTIVE RAIDER ARE VAST, BUT THE MOST COMMON OPTIONS FALL INTO EIGHT CATEGORIES

Most raiders will take actions from several different categories, and those in long drawn-out cases, such as the previously mentioned case of ToAZ, which has fought off successive waves of raiders since 2005, may employ them all. There is also a standard four-stage sequence to these tactics, which is addressed after the eight categories.

Forgery and fraud includes the falsification of documents of all kinds, ranging from shareholder registers to leases, deeds, ownership documents, permits, contracts, court decisions and bank documents. It is a component of almost every raiding case. The complicity of public officials at all levels is required for these documents to be notarized, registered, and accepted. In small-scale property cases, raiders may simply show up at a property with forged ownership documents and take over the premises by force or threat of force. In other cases, raiders have taken on the guise of consultants or potential partners and then used their inside access to create false shareholder registers or contracts. In still other cases, raiders have worked with the

police to seize and destroy documents that are essential to the functioning of the enterprise, and then forged new ones.

For example, in 2010 four officials of the Interregional Tax Service of Saint Petersburg Victoria Juscchenko, Peter Ganzhula, Alexander Sergeev, and Alena Grigoreva were found guilty of abusing their office, accepting bribes, and committing fraud on a large scale when they made illegal changes to the registration documents of several legal entities.²⁰ In the previously mentioned ToAZ case, an attempt to replace its management and gain access to assets of the enterprise was undertaken in November 2015 by its minority shareholder Evgeniy Sedykin when false information about an unauthorized annual general meeting of shareholders was entered in the register by the tax authorities in the Samara region. Later, these entries were found invalid and ToAZ initiated a criminal investigation into these fraudulent activities.²¹

²⁰ Investigative Committee of the Russian Federation (2010) "V Sankt-Petersburge vynesen prigovor suda v otnoshenii gruppy lits, uchastvovavshikh v reiderskikh zakhvatakh" [in Russian], <http://sledcom.ru/news/item/540987>, accessed January 4, 2016.

²¹ Togliattiazot Press Service (2015) "Togliattiazot vyyavil nezakonnuju popytku blokiravki khozyastvennoi deyatel'nosti" [in Russian], December 7, <http://www.toaz.ru/rus/press/news/document1959.phtml>, accessed January 10, 2016.

Russian Raiding Cases and the Tactics Employed								
	Forgery & Fraud	Malicious Prosecutions	Tax Inspections	Misuse of Shares	Misuse of Banking System	Violence	Dark PR	Abuse of Rule of Law
Agrofirma Engelskava	X	X		X				X
Agromal	X	X				X		X
Hermitage Capital	X	X	X			X	X	X
Khimvolokno	X				X			X
OGAT						X		X
Rudgormash	X	X	X		X	X	X	X
SMARTS	X	X		X				X
ToAZ	X	X	X	X	X	X	X	X
Yukos	X	X		X			X	X

Malicious Prosecutions

take place when the raider fabricates false criminal charges against the owners or managers of the target company. The goal in part is intimidation, but prosecutions also ensure the firm's leadership is locked away and unable to respond to the raider's other takeover tactics. The cooperation of a judge is necessary, but not difficult, to acquire in the Russian judiciary.

After the YUKOS case, the Basmany District Court became notoriously famous in Russia and abroad as an example of "a prosecution to order."²² Now, the term "Basmany justice" is widely used to denote the lack of independence and corruption of the judiciary in Russia.

Tax Inspections and other

regulatory harassment.

Raiders often bribe regulatory agencies to carry out inspections, file false reports and initiate other administrative harassment so that the owners of a company are spread too thin to effectively counter a raider's attacks. The tax authorities are the most frequently used, because they are both ubiquitous and easily corruptible. Once again, the ToAZ case provides an excellent example. During the 18 months of the first raid, ToAZ underwent 120 tax inspections and was assessed \$150 million in alleged unpaid taxes, which later were challenged in court.²³ One of the purposes of these types of claims is to force the company into bankruptcy, so that it can be more easily and cheaply

"acquired" by the raiders. In another example, Hermitage Capital was accused of tax fraud in the amount of \$230 million.²⁴ In this case, the purpose of the raid was to secure a fraudulent tax refund.

Misuse of Shares and Shareholder Protections.

In the past 15 years, raiders have increasingly used "attacks from within," misusing basic institutions of corporate governance to gain control. Other tactics include buying a minority stake in order to gain access to confidential information, forging internal documents, spreading false information, disrupting shareholder meetings, and electing alternate slates of officers who fire the management team and replace them with the raiders. The case of the SMARTS

²² Sakwa, R. (2012) "Systemic Stalemate: Reiderstvo and the Dual State," in N. Robinson (ed.), *The Political Economy of Russia* (Lanham), p. 72.

²³ Rochlitz, M. (2014) "Corporate Raiding and the Role of the State in Russia," *Post-Soviet Affairs*, 30 (2-3), p. 104.

²⁴ Taylor, J. (2012) "A \$230 Million Fraud — and a Trail of Death that Just Keeps Growing," *Independent*, November 27.

Group, a pioneering Samara-based Russian mobile telecom company, offers a good example of how raiders misuse a minority share package to take over a company. After the raiders bought a minority share of the company, they repeatedly disrupted shareholder meetings. They had lawyers file legal claims against SMARTS in order to paralyze the company's operations via the court system. They filed multiple identical lawsuits against the company and entered into false contracts on behalf of the company in other regions. Filing court cases in distant regions that have no connection to the company is a trick favored by raiders, since it is often easier to bribe officials and find willing collaborators in faraway regions where the firm has no contacts. After several attempts, the raiders succeeded in taking control of SMARTS and then reselling the shares at a huge profit. Almost a decade later, the legal proceedings continue to drag on, as the new owners fight with each other over competing claims for the initial packets of shares.²⁵

Misuse of the Banking System plays an important role in facilitating raiding. In some cases, raiders set up banks specifically to give credit to companies they are seeking to take over; in others, banks sell confidential information about clients to prospective raiders. In still other cases, banks are themselves raided by groups seeking to call in the bank's loans and gain control of its clients.

In a series of articles entitled "Credit Reiderstvo," Sergey Perov documents many large companies driven into bankruptcy in 2009 by raiding banks: a major steel maker in Russia's Far East (Amurmetall), a large textile works in Moscow Oblast (Serpukhovskiy Tekstil), an alcohol distributor in Perm (Dobrynya Enterprises), a textile factory in Volgograd (Kamyshynskiy KHBK), a meat factory in Omsk (Myasokombinat Omskiy), a waterworks and pipeline company in Dalnegorsk (Dalgrad), and a leading vodka producer (Kristall).²⁶ In some of these cases the companies' traditional banks had been willing to continue lending them money, but new "raiding" banks had taken over parts of the debt in order to call them in and liquidate the

company. Perov also describes the process by which small banks were themselves raided by other banks using similar methods, in order to gain access to confidential information, loans and payrolls of companies that would then be targeted for raiding.

Violence has been used in numerous cases, including armed raids, arson, physical attacks and murder. The level of violence has decreased markedly since the 1990s, and arson and murder are rare today, but the use of masked armed guards (known as "masky") to seize property and carry out "searches" is not uncommon. One of the most notoriously violent raiding cases of the last decade took place in Vladivostok in 2008 and was directed against OGAT, Ltd., one of the largest and most established road transport companies in the Russian Far East.²⁷ Raiders used fraudulent documents to sell off the company's assets, and when the owners recognized what was happening and sought to counter it, the raiders violently attacked company officials, local judges, and law enforcement. The founder and his father were killed, as was a local investigator, while several

²⁵ Gans-Morse, J. (2012) "Threats to Property Rights in Russia: From Private Coercion to State Aggression," *Post-Soviet Affairs*, 28(3), p. 285.

²⁶ Perov, S. (2009) "Kreditnoe reiderstvo" [in Russian], <http://pravo.ru/review/view/12918/>, accessed March 29, 2016.

²⁷ Beitman, A. (2013) "The Legal System, Corporate Raiding, and Organized Crime in Russia," <http://tracc.gmu.edu/2013/03/26/the-legal-system-corporate-raiding-and-organized-crime-in-russia/> accessed March 29, 2016.

others were seriously injured. Members of the raiding group were eventually arrested and convicted, revealing that the leader was the son of a local judge, and their lead counsel a well-known anti-corruption fighter.²⁸

“Dark” PR Campaigns are a common feature of raiding attacks and are often carried out by firms that specialize in spreading false reports commissioned by business rivals or raiders. Dark PR campaigns trace their roots

to the “kompromat wars” of the 1990s where the attacker would publish compromising materials about a person or business in order to create negative publicity and blackmail their victim.

SNAPSHOT 4: TELEPHONE JUSTICE AND ABUSE OF RULE OF LAW – TOGLIATTIAZOT

The Russian phrase “zakaznoye delo” (“ordered case”) refers to cases in which judges get orders “from above” about the decision to render in a specific case. In the West, this process is also known as “telephone justice” because a senior official simply picks up the phone and tells the judge how to rule. Since the calls don’t leave a trace, it is hard to estimate how common they really are. However, in the case of TogliattiAzot (ToAZ), Russia’s largest ammonia producer, which has been fighting off raids since 2005, there is documentation of three separate cases in which judges in different courts were pressured by their superiors to rule against ToAZ and were threatened with dismissal, or dismissed when they refused to do so. The best known one was in the Samara Regional Arbitrazh Court, whose judge, Nadezhda Kostyuchenko, protested her dismissal through the Russian legal system and then filed a complaint with the European Court of Human Rights when she was unable to get redress.

In the ToAZ case, the abuse of the police and enforcement agencies was also systematic. The first raiding attack on ToAZ began in 2004, when the company Syntech, headed by Victor Vekselberg, bought 9.14 percent of ToAZ shares and tried to gain control over its Board of Directors. When then-Chairman of ToAZ Vladimir Makhlay refused to sell a controlling stake to Syntech, the enterprise was raided by the police and the Investigative Committee of the Interior Ministry commenced a criminal case against him and CEO Alexander Makarov, charging with tax evasion through the sale of ammonia at below-market prices. In 2006, Vladimir Makhlay and Alexander Makarov were also charged with embezzlement and money laundering. Since both of them managed to flee Russia, extradition requests were issued by the Russian authorities. It took almost five years to prove that their criminal prosecution was ungrounded. Only in 2010 did the Investigative Committee finally drop all the charges against Vladimir Makhlay and Alexander Makarov because of the absence of actions that constitute a crime.

The second raid on ToAZ began in 2011 when Uralchem, another top Russian producer of ammonium nitrate headed by Dmitry Mazepin, bought 7.5 percent of ToAZ shares. In the following years, Uralchem filed numerous criminal and civil lawsuits against ToAZ. When all these lawsuits were either dismissed by courts or withdrawn by Uralchem itself, Dmitry Mazepin went further to instigate a criminal case against the new ToAZ President and Chairman of the Board of Directors Sergey Makhlay, with exactly the same allegations that were used during the first raid against his father Vladimir. In 2015, the Moscow’s Basmanny District Court issued a decree of detention-in-absentia of Sergey Makhlay.²⁹

²⁸ Beitman, A. (2013) “The Legal System, Corporate Raiding, and Organized Crime in Russia,” <http://traccc.gmu.edu/2013/03/26/the-legal-system-corporate-raiding-and-organized-crime-in-russia/> accessed March 29, 2016.

²⁹ Coalsoun, R. (2008) “The Myth of Putin’s Popularity,” RadioFreeEurope/RadioLiberty, December 30, <http://www.rferl.org/content/blog/1365202.html>

The main aims of a dark PR campaign are to destroy the target company's reputation, create uncertainty about its future, and misinform stakeholders about its economic performance. Given the rapid growth of internet usage in Russia, contemporary dark PR specialists tend to wage information war online, publishing negative information about raided businesses and their owners on forums, blogs, news portals, and social networks with audiences looking for sensationalist material. Favored techniques of dark PR practitioners include accusations of criminal activities, rumors of sales, especially to foreigners, raising fears of accidents and environmental disasters, and publishing false letters of complaint from the public.

"INTERPOL STAFF HAVE ESTIMATED THAT 97% OF RED NOTICE REQUESTS ARE NOT REVIEWED IN DEPTH BEFORE PUBLICATION."

Abuse of International Law Enforcement Mechanisms

When a firm or its owners have foreign connections, raiders may engage law enforcement to have Interpol issue a "red notice", or international arrest warrant. Using fabricated criminal charges, the objective is to ensure that the firm's owner or management will be arrested and returned to Russia if they seek to cross an international border. Interpol is able to review requests suspected to be motivated by politics/corruption and to take down those they find to be invalid, but as the number of red notices issued has increased rapidly, Interpol staff have estimated that 97% of red notice requests³⁰ are not reviewed in depth before publication.³¹

In 2013, following significant media coverage, Interpol agreed to remove a red notice for William Browder of Hermitage Capital because it was politically motivated. But other businessmen remain stuck in limbo, trapped in countries for political reasons, unable

to leave for fear of arrest. One such executive, Chairman of Ameropa Andreas Zivy, told Swiss press that the red notice made it extremely difficult for him to run his business.

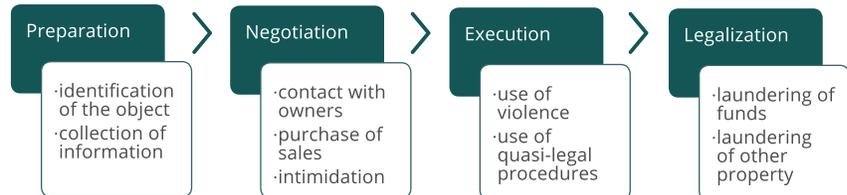
³⁰ Bromund, T. R., & Kopel, D. B. (2013) "Necessary Reforms Can Keep Interpol Working in the US Interest," Heritage Foundation Backgrounder, p. 12.

³¹ NGOs like Fair Trials have been highly critical of Interpol in the past, stating that the system's credibility is undermined when governments use it to pursue exiled political opponents and are not stopped. The organization's chief executive Jago Russel stated that "Interpol has an important role to play in the fight against serious and organized crime but, when abused, its global 'wanted person' alerts can have a devastating human impact. With simple reforms Interpol could weed out many of these cases and strengthen its credibility which is threatened every time its systems are misused for political purposes." (cited in Bowcott, O. (2013) "Interpol Accused of Failing to Scrutinise red notice requests," The Guardian, September 27).

FOUR STAGES OF THE RAID

THERE ARE FOUR IDENTIFIABLE STAGES IN A SUCCESSFUL RAID

Figure 1. The multi-stage process of illegal raiding



The preparation stage of a raid involves the selection of a target, assessment of the related risks and benefits, and collection of information about a business, its owners, and their activities.

The negotiation stage involves raiders' contacts with business owners. To gain leverage in negotiations, raiders may purchase shares from minority shareholders, distribute defamatory information about owners, finance black PR campaigns, file lawsuits against a business, blackmail or intimidate legal owners. Once a legal owner refuses to negotiate with raiders, the third stage is the execution of an illegal takeover.

The vast majority of raids succeed at the negotiation stage, and need not go any further because the victims recognize that resistance is futile and simply sell off their assets to the raider for

whatever price they can get. This happens often when businesses are small and have few resources to fight with, and/or if the raiders are believed to have powerful political backing. This has been common in the case of real estate in desirable cities like Moscow and Saint Petersburg, where the initial owners were often individuals with few other assets. It also includes some of the major oligarchs in the early Putin years, who recognized that the government was going to take their assets anyhow, and decided to sell their more desirable businesses in order to be allowed to retain the others. Including these sales as reiderstvo likely increases the number of raiding cases well beyond the figures President Putin cited in his 2015 Address to the Federal Assembly.

The execution stage can be long or short, and can include the use of one or more of the tactics detailed above. Raids

can succeed swiftly, or they can be resisted, resulting in a standoff that can last for years. Some enterprises have had to struggle against several waves of raiders, and in hard-fought cases such as those of Rudgormash and ToAZ the process can last more than a decade.

The legalization stage starts once a takeover is completed and raiders can initiate the laundering of their illegally acquired property and funds. The favored technique is to rapidly resell the assets

through several owners before the original owners can react so that the property cannot be reclaimed even if a court decides the sale was illegal. Only in a minority of cases do the raiders try to actually run the businesses. In most cases — even in large enterprises — the raiders simply strip the assets and close the company down.

SNAPSHOT 5: LONG RAIDS AND LONG-TERM DAMAGES — RUDGORMASH

Raiding attacks are frequently rooted in the questionable privatization deals of the early 1990s that provide easy fodder for raiders years later. The long fought case of Rudgormash in Voronezh, once Russia's largest producer of mining equipment, demonstrates both the variety of attacks and their social and economic costs. The first raids started in 2005, and at least three different raiding groups have tried to take over the company. Anatoly Chekmenov, the majority shareholder and director, and his deputy Vyacheslav Yenin have repeatedly been threatened, investigated, arrested and imprisoned, but each time the charges have been dropped and their convictions have been overturned. Dark propaganda campaigns and "masked" search parties have been countered by workers loyal to Chekmenov who have barricaded the factory, shown up at Chekmenov's trials, demonstrated in front of government buildings, made YouTube videos, and sent petitions to local and national officials, even as wages have gone unpaid because the company's finances became enmeshed in lawsuits, tax claims and bankruptcy proceedings. An update in the local media reported in late 2014 that the charges against Chekmenov and Yenin had again been dropped. The factory continues to function despite an ongoing and complex series of bankruptcy claims and counterclaims, but employment and production are way down.³²

³² Business Information Agency ABIREG (2014) "Top 10 korporativnykh konfliktov Voronezha v 2014" [in Russian], http://abireg.ru/n_43607.html, accessed March 29, 2016.

WHAT DOES THIS MEAN FOR BUSINESS AND RUSSIA'S ECONOMY?

RAIDING IS CONTRIBUTING TO RUSSIA'S CURRENT UNFRIENDLY BUSINESS CLIMATE

Without state protections for basic property rights people are discouraged from starting new businesses, leading to a steady decline in firm entry rates. The European Bank for Reconstruction and Development notes that Russian entry rates “were level with or above OECD benchmarks in the second half of the 1990s” but “dropped sharply in the mid-2000s and have continued to decline.”³³

Both the Russian and international business communities have spoken out about how corruption hurts their businesses. At the 2015 Moscow Economic Forum,³⁴ entrepreneur Dmitry Potapenko, a partner of the Management Development Group and the founder of a number of major Russian retail chains, went viral on YouTube for his diatribe against Russian authorities. He complained of bribery, extortion, and red tape, stating that Russia's economic problems are a result of its own economic authorities, not external factors or anti-Russian policies held by Western countries. In Russia's time of

economic turmoil, businessmen like Potapenko see the Russian state's policies as evidence that they would prioritize the interests of the elite rather than supporting entrepreneurs and small businesses.

Russia's standing in international business rankings has suffered in part because of business corruption. Russia ranked 119th out of 167 countries in Transparency International's Corruption Perceptions Index 2015.³⁵ A 2014 Pew Research Center study found that 65% of Russians believe that corrupt political leaders are a “very big problem” for their country, and another 27% cite corrupt political leaders as a “moderately big problem”³⁶. Another 2012 Pew survey found that only 17% of Russians believe that they have a fair judiciary system, but 71% believe that having a fair judiciary is very important.³⁷ Ernst & Young's Russia attractiveness survey, last conducted in 2013, found that 55% of business leaders who responded to the survey believe that Russia's political, legislative, and administrative environment is a key concern.³⁸ This includes

³³ European Bank for Reconstruction and Development (2012) “Diversifying Russia: Harnessing Regional Diversity” (London), p. 32.

³⁴ Hartog, E. (2015) “Angry Russian Businessmen Turn on Kremlin,” The Moscow Times, December 18. <http://www.themoscowtimes.com/business/article/angry-russian-businessmen-turn-on-kremlin/553051.html>

³⁵ Transparency International (2016) Corruption Perception Indexes 2015, <http://www.transparency.org/cpi2015>, accessed March 29, 2016.

³⁶ Pew Research Center (2014) “Crime and Corruption Top Problems in Emerging and Developing Countries” (Washington, D.C.), p. 5.

³⁷ Pew Research Center (2012) “Russians Back Protests, Political Freedoms Countries,” <http://www.pewglobal.org/2012/05/23/russians-back-protests-political-freedoms-and-putin-too/>, accessed April 7, 2016.

³⁸ Ernst & Young (2013) E&Y's Attractiveness Survey, Russia 2013: Shaping Russia's Future, p. 31, [http://www.ey.com/Publication/vwLUAssets/2013-Russia-attractiveness-survey-Eng/\\$FILE/2013-Russia-attractiveness-survey-Eng.pdf](http://www.ey.com/Publication/vwLUAssets/2013-Russia-attractiveness-survey-Eng/$FILE/2013-Russia-attractiveness-survey-Eng.pdf), accessed April 7, 2016.

developing a stronger business climate, as well as tackling corruption. When asked how to improve Russia's investment climate, the top three answers were: reduce bureaucracy (44%), improve the effectiveness of the rule of law (43%), and improve the transparency of business regulation (30%).³⁹

All of this data suggests that Russian leadership is failing to meet the needs of its citizens and the businesses that work within its borders, and that these policies are stunting economic development. In 2015 the Presidential Council on Civil Society and Human Rights estimated that Russia had lost 300,000 jobs in the private sector, while the number of government employees had increased by one million.⁴⁰ The companies targeted in Russia tend to be profitable, or at least have valuable assets, and raids almost always cause the value

of the asset to fall, in many cases leading to the total closure of the enterprise. Russian officials at the highest levels have proven willing to countenance the destruction of major enterprises for private gain, even in sensitive areas such as defense, or in one-factory towns where the majority of the population depends on a single enterprise.

As an example, the open joint-stock company Khimvolokno was once a highly successful textile company in the Saratov region, with a profit margin of nearly 25%, profits upwards of 4.7 billion rubles, and successful market entries in Germany, South Korea, Turkey and Switzerland. Despite his success, General Director Aleksei Bogdanov was unable to ward off attacks from raiders, who within a couple of years were able to seize control of the company and initiate a bankruptcy claim.⁴¹

Perhaps most surprising is that even companies that are strategically important for Russia's defense industry and national security have been raided with impunity. Some of these were deliberately bankrupted, others had to sell off their most valuable assets, while still others had to dismiss their highly trained staff. The Moscow M.L. Mil Helicopter Plant, a major producer of rotary-wing aircraft for the Russian army, lost most of its research facilities and valuable buildings as a result of raiding. The Volgograd Barrikady Defense Enterprise was deliberately bankrupted and had to sell its workshops. Although figures are hard to verify, Russian politician and lawyer Pavel Astakhov once stated that 200 enterprises in the Russian defense industry had been the subject of raid seizures.⁴³

SNAPSHOT 6: RAIDING AND RUSSIAN NATIONAL SECURITY

Even companies that are important for Russia's national security get raided, and government agencies seem powerless to protect them. A recent example is NPO Geliymash, a high tech firm that produces equipment for rocket launchers and cryogenic equipment and also owns Russia's only producer of liquid helium. Geliymash's customers include the Ministry of Defense, the Russian Space Agency, and the Baikonur and Plisetsk Space Centers. Since 2011 raiders have been attacking the enterprise. According to Russian media, they are an established raiding group that plans to close down production and profit from the Moscow area real estate. Still, the raid continues, despite efforts by the Defense Ministry and Space Agency to protect the firm.⁴²

³⁹ Ernst&Young (2013) E&Y's Attractiveness Survey, Russia 2013: Shaping Russia's Future, p. 54, [http://www.ey.com/Publication/vwLUAssets/2013-Russia-attractiveness-survey-Eng/\\$FILE/2013-Russia-attractiveness-survey-Eng.pdf](http://www.ey.com/Publication/vwLUAssets/2013-Russia-attractiveness-survey-Eng/$FILE/2013-Russia-attractiveness-survey-Eng.pdf), accessed April 7, 2016.

⁴⁰ Voronina, Y. (2015) "Biznes ishchet zashchity" [in Russian], Rossiyskaya Biznes Gazeta, September 1.

⁴¹ Just as in the Agrofirma Engleskaya case cited earlier, the "firm" was sold for \$3 million after all valuable assets had been stripped off and sold privately for a net \$300 million. Beitman, A. (2013) "Bankruptcy Fraud in Russia," <http://traccc.gmu.edu/2013/07/22/bankruptcy-fraud-in-russia/>, accessed March 29, 2016.

⁴² Information Agency Ruspres (2015) "Otvet Vadima Uduta" [in Russian], February 18, <http://www.rospress.com/finance/15467>, accessed April 6, 2016.

⁴³ Higher School of Economics (2008) "Raiders Focus on Defense Enterprises," Open Economy Website, <http://opec.ru/24861.html>, accessed January 29, 2016.

THE OUTLOOK

CORPORATE RAIDING IS BECOMING AN INSTITUTIONALIZED FEATURE OF THE RUSSIAN POLITICAL ECONOMY

The heritage of flawed and violent privatization in the 1990s has proven fertile soil for the rise of corporate raiding in Russia today. In those early years of capitalism, many “entrepreneurs” made their fortunes by seizing control of existing assets rather than building new ones, and this pattern has continued. In addition, many enterprises were privatized in a gray zone of quasi-legality, leaving them vulnerable to legal challenges in later decades.

Beyond the economy, perhaps the most important impact has been on public opinion: the majority of the population who felt they did not benefit from privatization concluded that all private property had been acquired illegally or, at least, unfairly. As a result, the general public is often apathetic towards individual cases of raiding, unless their own job or property is on the line. In many cases, it is just seen as a case of one raider replacing another, and as an inescapable component of capitalism.

In large part, the continuation of raiding is the inevitable result of President Putin’s building of “power vertical.” As President Putin has systematically enfeebled the institutions that could counter the predatory power of the state (the media, NGOs, political parties, an independent judiciary), none of them have been able to provide an effective check on corporate raiders. In the absence of these independent institutions, a number of courageous individuals and business groups have tried to bring public attention to the issue of raiding, defend businesses that are attacked and uncover the state corruption that lies behind it. There have been detailed revelations by anti-corruption crusaders such as Alexei Navalny, whose recent film documented the enormous wealth amassed by the two sons and wife of Russia’s Chief Prosecutor, Yuriy Chaika. But despite considerable public outrage, there has been no official response, and attempts by the business community and political opposition groups to mobilize this outrage into concrete action have been unsuccessful so far.

SNAPSHOT 7: BUSINESSMEN FIGHTING BACK

Agromol was a medium-sized factory located in Russia's Northwest (Kostroma), employing 300 workers and producing milk and milk products. In 2008 two former FSB (intelligence) officers approached its owner, Dmitri Malov, and threatened to have him arrested unless he sold them the company. When he refused, he was charged with theft in connection with a bank loan the company had taken out two years earlier, and was sentenced to five and a half years in prison.

Malov was lucky that his case was taken up by Business Against Corruption (BAC) a self-defense organization set up by a group of business leaders, including Yana Yakovlevna. She herself had been imprisoned, along with a colleague at the chemical plant they had founded, when they refused to pay kickbacks to the anti-drug police. The goal of BAC was to investigate complaints by businessmen, and pursue their resolution through the judiciary and through the media. But they were only able to resolve a handful of complaints — including Malov's. After a two-year legal battle his sentence was overturned and he was released.^{44, 45}

Little of the information in this report is new and not common knowledge, especially among Russians. The international business community has long spoken up, with policy experts documenting the links between business corruption, organized crime, and international terror organizations worldwide. Westerners understand the problem and have greatly limited foreign investment, but to date this has not been enough to change the status quo and ease the pervasiveness of the practice. The authors hope that the process of assembling the content and shape of the collection of

raids into this report has provided the international community with a fuller picture of the challenge reiderstvo presents for Russia, the economy, and the international community. By identifying the unique markers of an illegal Russian business raid, we hope this picture provides a better understanding of the severity and significance of the problem, so others may consider solutions for challenging the status quo before even more damage is done.

⁴⁴Yakovlev, A., Sobolev, A., & Kazun, A. (2014) "Means of Production Versus Means of Coercion: Can Russian Business Limit the Violence of a Predatory State?," *Post-Soviet Affairs*, 30(2-3), p. 176.

⁴⁵Yakovlev, A., Sobolev, A., & Kazun, A. (2014) "Mozhet li rossiiskii biznes ogranichit' 'silovoe davlenie' so storony gosudarstva" [In Russian], Working paper WP1/2014/01, Higher School of Economics (Moscow), pp. 22-23.22-23.

