

Privatization: the looting of Russia

Rachel Douglas reports on two current analyses of privatization in Russia, by economists Sergei Glazyev and V.A. Lisichkin.

The precipitous collapse of Russian industrial output since 1992 has now sent out its second shock wave, rippling into the agriculture sector. Declines of *output*, such as 30% in the chemicals industry in 1994 alone and 40% in machine-building that year, echoed back as catastrophically reduced *input* of fertilizer and machinery for farming, illustrated by Marcia Merry Baker in her recent report, "Do You Want to Eat Next Year?" (*EIR*, Sept. 15, 1995, p. 35). The reduction of these inputs to as much as 90% below 1990 levels, underlies the looming disaster of the 1995 grain harvest in Russia, estimated to be in the range of 45 to 65 million metric tons, as against 81 million tons last year and over 100 million tons at the turn of the decade.

Throughout the production crash, Russian industry has been undergoing privatization. At the end of 1992, there was "voucher privatization," during which the State issued vouchers to each Russian citizen, who thus ostensibly received the opportunity to become an owner. A furious process of amassing vouchers, including by purchase from factory employees desperate for cash during neatly timed lock-outs or stretches of payless paydays, was the occasion for many organized crime groups to get a leg up in the scramble to own plant and equipment in Russia. Then there ensued share auctions, in which one after another major enterprise was privatized.

The announced rationale, was that private ownership and market mechanisms would kick the Russian economy into shape, weeding out the inefficient producers. The reality has been wholesale asset-stripping: looting by means of the licensed or unlicensed, and usually undertaxed sale of raw materials stockpiles and machinery inventories at dumping prices—but for hard currency—abroad, selling of costly machinery for scrap, and conversion of machine shops to warehouses for traders in imported consumer goods.

'Settle with bullets'

What was afoot in Russian privatization, Lyndon LaRouche reviewed in his "EIR Talks" interview of Oct. 18: "Since late 1989, until President Clinton was inaugurated, the government of Britain, Margaret Thatcher's government at the time, had a policy which was supported by the United States under George Bush. And that policy was *to destroy* every nation which had been formerly part of the Warsaw

Pact alliance under the Soviet direction, by a policy which was called 'reform,' sometimes called 'shock therapy,' sometimes called 'International Monetary Fund (IMF) conditionalities.'

"The purpose of that reform was to destroy these countries, by what might be called a modern version of the Morgenthau Plan, which Secretary of the Treasury Henry Morgenthau designed [at the close of World War II] for turning Germany from an industrial nation into a depopulated, pastoral, bucolic Third World country, so to speak.

"Now, that program has nearly succeeded in Russia, as it has in other parts of eastern Europe. As a result of that continuation of that policy called 'the reform,' the old Communist forces and related forces are coming back into power throughout eastern Europe. Because the forces which supported the Thatcher-Bush policies on the idea of becoming part of the Western world, as anti-Communist and things of that sort, those forces became discredited, precisely because they supported the Thatcher-Bush free trade IMF conditionalities policy.

"Now, what's left . . . are two elements within Russian society, in particular. . . . On the one side, you have people typified by [Viktor] Chernomyrdin, the prime minister, who . . . has been supervising the policy of turning Russia into a Third World country, that is, dumping raw materials, primary materials from Russia, on the world market at bargain prices, largely to the benefit of the London-centered markets, and thus ruining Russia, turning Russia into a Third World, depleted country.

"On the other side, you have those forces, which are for saving Russia as an industrialized nation-state, or reestablishing it as an industrialized nation-state at this point, and there are forces which are centered around the military, but also other forces, people who are, formerly or at present, in the State apparatus and associated institutions of Russia.

"In the meantime, since early October 1993, with the shelling of the old Parliament by President [Boris] Yeltsin's forces, real democracy in Russia died. . . . So, essentially, the people of Russia, who are trying to survive, are really not involved in politics. . . . Maybe people will rally to the support of some party at some time; but at this time, the parties really are a vehicle for pure power-play politics, from within the leading State and related establishment. . . .

"The military-industrial complex in general, and other institutions which deem themselves patriotic Russian institutions, are trying to save Russia as a nation-state. But it's a pure power-play. It is not a 'political process' as we think of parties seeking mass support. The people will respond to this process, but you're on the verge of, possibly, a question where policy is settled with bullets."

Privatization in the power struggle

The accusation of "selling of the nation for personal gain" figures centrally in the power struggle in Russia. Prime Minister Chernomyrdin and Deputy Prime Minister Anatoli Chubais are most vulnerable to these charges. For this report, *EIR* has translated two current analyses of the privatization process, by Russian opposition figures, which express their anger about the looting of Russia.

The first is an excerpt from an October interview, given by economist Sergei Glazyev to the nationalist newspaper *Zavtra*. Glazyev, who quit his government job of Minister for Foreign Economic Relations in protest against Yeltsin's abolition of Parliament and the Constitution in September 1993, now heads the Committee on Economic Policy Questions of the State Duma (lower house of the new Parliament), leads the Democratic Party of Russia, and is running for reelection to the Duma on the Congress of Russian Communities slate, with Gen. Aleksandr Lebed and Yuri Skokov.

Second, we excerpt a report on privatization, by Academician V.A. Lisichkin. An economist with a background in the defense industry, Lisichkin was expelled from the Communist Party in 1982 "for attempting to reproduce, for purposes of dissemination, his gloomy picture of the Soviet economy, science, and technology," and today is a deputy in the Duma from Vladimir Zhirinovskiy's Liberal Democratic Party of Russia (LDPR).

Lisichkin's report summarizes and elaborates on revelations about the sell-off of Russian industrial firms, first made by Vladimir Polevanov in January of this year, when Polevanov was fired as head of the State Property Committee after challenging these practices in an open letter to Prime Minister Chernomyrdin (see *EIR*, Feb. 17, 1995, p. 9 and June 16, 1995, p. 6). The report also expresses a chronic blunder of critics of the looting of Russia: the notion that privatization was "done right" in other locales, such as Chile, other eastern European countries, or Great Britain itself! (Glazyev, with his reference to the Chilean banking collapse, avoids this error.) *EIR* does not vouch for the accuracy of all of Academician Lisichkin's allegations, concerning the activity of specific foreigners in the privatization of Russian industry, but we note that such involvement is viewed as hostile activity by numerous leading figures in Russia. The Lisichkin report has been extant for several months, but is currently circulating in the Duma and other Moscow locations in connection with the parliamentary elections scheduled for December.

Anatoli Chubais, a featured personality in the reports of



Russia's Deputy Prime Minister Anatoli Chubais, former head of the State Property Committee, is being denounced as a principal instrument for western looting of Russia.

both Glazyev and Lisichkin, is a close associate of Chernomyrdin; he formerly headed the State Property Committee and is now a deputy prime minister.

Sergei Glazyev: Corruption in privatization

Zavtra #40, 1995 (October) interviewed Sergei Glazyev.

Glazyev: Privatization abounds with examples of direct participation of people linked with the authorities, in the division of property. For example, among the most thriving financiers on today's domestic market you will find quite a few former advisers of Mr. Chubais, and these are foreigners, who themselves worked up the privatization methodology, organized first the voucher auctions, and now the buying and selling of shares. Purchase here and sale abroad, naturally. Under American, European, Japanese, and any other body of law, this is pure criminality. It is not entirely blameless activity under our code, either, but it is, nevertheless, a rule of the game adopted by the Chernomyrdin government.

The difference between the [Yegor] Gaidar government [in 1992] and the Chernomyrdin-Chubais government is that the former fostered the spontaneity of an uncontrolled war for property, of all against all, while the latter has become an active participant in this war, utilizing its authority, playing

for its own gain in its various hypostases. The State Property Committee is one hypostasis, which played with foreign capital; the prime minister with Gazprom is another hypostasis. Today we see, that people's wages fell 30% during the first half of the year, while prices for natural gas have increased tenfold during the first ten months.

Zavtra: What is the basis for the unsinkability of Chubais?

Glazyev: I think it is foreign support. This is evident both from his concrete actions, when he actively lobbies for the interests of foreign companies, and in the very assertive work of his foreign advisers, who provide a connection with foreign big capital, and in the direct pressure of the American administration on the Russian. It is indicative, that each visit of the American President is accompanied by a strengthening of Mr. Chubais's positions. . . .

The most important thing today, is for all constructive forces to unite. I believe that the Democratic Party of Russia, in resolving not to run its own slate in the elections, but to advise its members to participate in them through the Congress of Russian Communities (KRO), has simply given an example of how, for the sake of truly serious goals, in the face of the real threat of self-destruction of the State and the country, it is necessary to forget about political ambitions and to try to consolidate a common movement, capable of really doing something in the interests of society. . . .

The current regime expresses the interests of 2 or 3% of the population, while our program expresses the interests of the overwhelming majority, because it promises real economic growth without expectations of foreign aid, proceeding on the basis of what our economy does have.

I would express the key idea of our program as follows: combination of the competitive advantages of our economy with the main factor of contemporary economic growth—scientific and technological progress. From 70 to 90% of all economic growth, today, derives from the production and dissemination of new scientific and technological knowledge.

We anticipate, that the activation of scientific-technological potential, together with our natural competitive advantages, will create the main "draft force" for economic growth. These competitive advantages are: the cheapest raw materials, which allow for low production costs in the processing industries; a developed industrial base and one of the most powerful scientific potentials in the world; highly skilled people; developed industry; developed infrastructure. In other words, the country has everything required for further development, relying on our own forces.

Another part of our program deals with the current situation of the economy, which we characterize as a great depression. Here, we propose a set of concrete measures for resuscitation of the economy. These are measures to revive production, expand capacity utilization in industry. It means the restoration of citizens' savings. . . . It means using State purchases, to supplement enterprises' circulating capital un-

der conditions of hyperinflation. We are proposing, that is, to activate State demand, in order to stimulate production in the key sectors that determine economic growth. In order to preserve our concrete advantages, linked with our powerful raw materials base, we consider an active pricing policy to be necessary. This means that control should be established over price formation, in the sectors characterized by natural monopolies. Because the main factor in inflation, at present, is the surpassing growth of fuel prices, especially on natural gas. While all prices have grown twofold, on average, this year, natural gas prices have risen 6.5 times. Gas delivered from the supply network—ten times. It is clear, in whose interest this is. But what is in the interest of society, would be to establish control over the natural monopolies, over the system of price formation, in order for industry to remain competitive.

Very important for us, among the resuscitation measures, is restoring order in the management of State property and State finances, because our strategic goals and tasks require material back-up and a concentration of financial means. This would be a concentration of financial resources not only in the hands of the State, but also in the industrial-finance groups (FPG) and in those parts of the economy oriented toward growth, rather than the speculative, short-term conjuncture. I should say that, if we abolish all illegally granted tax breaks, and ensure that natural rent is not diverted into private pockets, but goes to the State. . . . In any market economy, natural rent is national rent. If we were to establish normal, commercial utilization of State property, budget revenues could be practically doubled. And our calculations show, that this will make it possible to solve not only social problems, but to carry out tax reform, which is extremely necessary to normalize business, insofar as today, he who pays no taxes, thrives.

But today's authorities harshly impede even the first steps toward introducing order in this sphere. We see how strained relations are between the Duma and the government, on the question of eliminating tax breaks and introducing control over the privatization process. The government constantly evades establishing any legislative basis for these processes.

In my view, we are now in the active phase of a banking crisis. In any case, there are signals left and right about the insolvency of banks. Accounts are frozen. Banks are unable to carry out their obligations to their clients. Processes of concentration of bank capital have already begun, as one way out of this crisis. But the government's and Central Bank's actions, in buying up short-term government bonds in an attempt to increase liquidity in the economy, is a half-measure, which will yield no serious effect, without the simultaneous application of other means. These would include guarantees for private capital in the development of production, defense of the market for the purpose of reviving the productive sectors, introduction of normal export tariffs on natural gas, in order to restrain pressures on the ruble, and to bring the rate of devaluation of the ruble into accord with the

devaluation of purchasing power on the domestic market. The one measure employed by the government, out of this whole array . . . is the most destructive in its inflationary consequences. . . .

How will this end, and when? That is a difficult question, because in Chile, it ended in the collapse of the entire banking system. In America during the Great Depression, banking transactions were suspended for a certain period. Then the process of clearing up the banks' affairs commenced. But our government has just let everything go. Therefore, evidently, many banks will simply crash, their clients will go bankrupt, and this will trouble nobody—neither the government, nor the Central Bank.

The Lisichkin report: 'Criminal privatization'

The avalanche, or fire-brigade character of the 1992-94 privatization program is obvious. In the framework of this program, around 70% of the small enterprises in Russia had been privatized by Jan. 1, 1994. In the course of "big privatization," 11,005 joint stock companies (AO) were established on the basis of medium and big enterprises (out of 14,500 enterprises which underwent this process). Formally, there are presently in Russia about 60 million shareholders in newly established, effectively idle or semi-idle industrial AO or voucher investment funds (ChIF). Bankruptcy proceedings for these AO and ChIF commenced in spring and summer of 1994.

By July 1, 1994, 88,577 enterprises had been privatized, or 56.54% of the enterprises functioning with an independent set of books during that period. As of Jan. 1, 1993, that indicator had been only 18%. Compared with the total number of State-owned enterprises with their own set of books at the beginning of 1992 (when the privatization program started in Russia), the percentage is even higher: 63.3%.

As a result of "small privatization" in 1993, 68.9% of enterprises in the trade sector were privatized, 64.2% of public dining facilities, and 70.8% of enterprises in the social services sphere. The most popular mode of small-scale privatization for the trade sector and public dining facilities was rental, followed by buy-out: 46% and 52% of the enterprises in these sectors, respectively, were privatized in this way. In the social services sector, competitive bidding was most popular (46%). In agriculture, 80% of food-processing and service enterprises were privatized by granting "type 2" discounts to their employees. This led to the strengthening of these enterprises' monopoly in a given region, such that, to the detriment of the interests of food producers, they started to dictate low prices for raw products they purchase and to establish exorbitant prices on processed food. As a result, from 1991 to 1993, the food-producers' share in the final price of food products dropped from 60-70% to the 20-40% range.

Privatization strategy

The goals of privatization were officially formulated in the well-known Decrees of President B. Yeltsin, #34-1 issued on Dec. 29, 1991 and #66 issued on Jan. 29, 1992. In less official documents, such as interviews and speeches of A. Chubais and the leaders of "Russia's Choice," the main goals were identified as the creation of a new class of owners and making the process of transition to capitalism in Russia irreversible.

It turns out that all those formulations of the goals of privatization were nothing but a fig-leaf, covering the shamelessness of looting.

That became clear in a rather frank speech by A. Chubais, at parliamentary pre-hearings in the State Duma on March 21, 1994. Explaining to the uncomprehending deputies the process of privatization after July 1, 1994, that is, after the stage of so-called voucher privatization was over, A. Chubais announced: "The structures which have power, exchange this power for property." Such extreme sincerity, verging on cynicism! It would be difficult more clearly and precisely to formulate the so-called democrats' goal of seizing and usurping power.

What national interests? What statehood? What power of the people? Seize power and trade it for property—this is the real goal of a democrat. Faster, faster. In a year, or at most two, while people still believe that they will become property-owners. This is the reason for the super-fast rate of privatization. The world record set for speed of privatization, was but the takeover, by a narrow group within the power structures (from the Presidential apparatus down to the regional administration), of the national wealth, created by the labor of three generations in our country.

This narrow group of "democrats" numbers 700-900,000 people. These are the future bigwigs of Russian capitalism. Now they are in power. And for them, power is an instrument for carving up the national property.

In 1992, A. Chubais deceived the nation with propaganda about the vouchers. He did it by comparing the value of one voucher to that of two Volga automobiles.

Now, we shall turn to the official documents and see whether the official privatization goals were fulfilled in 1992-93.

The main goals of privatization, presented in [Yeltsin's two above-named decrees], have not been met:

- the increase of economic efficiency of enterprises has not been secured;
- budget revenues have not increased;
- the State has not been relieved of the burden of supporting inefficient enterprises;
- there has been no support for the realization of the general goals of economic stabilization;

The only goal that has been achieved, namely, easing the transformation to free pricing through speedy privatization of commerce and services, became a tragedy for Russia:

- 90% of the population ended up robbed;

- 60% are below the poverty line;
- over 20,000 organized crime groups emerged;
- every commercial and service sector firm is a growth point for a mafia group or a target for extortion, which has acutely aggravated the criminal situation in the country;
- the lumpenization of the middle class (engineers, technicians, civil servants, intelligentsia, scientists) and the degradation of the material conditions of life of workers and peasants led to a dramatic division of the society between a small handful of the superwealthy and an overwhelming majority of poor people. This was the reason for the split in society and the political crisis in 1993. . . .
- trust in the President and the government was undermined;
- loss of faith in democracy and the free market. . . .

It is high time for Mr. Chubais to retire, for that one heroic deed alone—creation of the criminal system of privatization.

In a report by the Ministry of Internal Affairs of the Russian Federation, it was noted that in 1993 alone, 27,700 crimes connected with privatization were uncovered. A huge number of crimes were not discovered. And how many were covered up? But even if one accepts this number, simple arithmetic shows that we have 76 crimes daily, or 3 crimes per hour, including Saturdays, Sundays, and holidays.

According to the data from Minister of Economics A.N. Shokhin, 40,349 enterprises were privatized in the whole national economy in 1993, or 110 enterprises per day, 4.6 per hour. Comparing these two numbers, it is easy to see that the system of privatization created by Ye. Gaidar, A. Chubais, A. Shokhin, and others leads to crimes on an hourly basis.

Suffice it to mention the brutal murder of the chairman of the Committee on Privatization in Kareliya. Many directors of privatized enterprises perished at the hands of hired guns. Mr. Chubais is silent about this. He only boasts about the world speed record for privatizing. . . .

According to official sources, more than 60,000 Russian enterprises are controlled by organized crime. In effect, this is an undeclared civil war. War over the division of property. Instead of the civilized forms of privatization planned by the Supreme Soviet of the R.S.F.S.R. [Russia in the Soviet Union], considering the experience of Czechoslovakia, Hungary, and Poland, Chubais introduced voucher privatization by a skillful trick.

He did it by the hand of President Yeltsin, promising him that in a year he would create a broad social base for the Presidential regime, in the form of huge numbers of property owners (possessors of vouchers).

Second, he promised the President to make the reforms irreversible, by the swift distribution of property. In the end, Chubais deceived the President twice, and the nation many times over. . . .

The price of a factory

On orders from western advisers, Chubais's agency issued decrees, resolutions, laws, and instructions on priva-

tization, such that the treasury of Russia received an average of \$2.48 million for each of 87,600 privatized enterprises.

In order better to understand the scale of looting which Chubais termed the success of the first stage of privatization, let us introduce a new currency unit: \$25 million=1 klyukha. What is one klyukha? It is the hockey stick of hockey-player P. Boure. The Canadian team, the Vancouver Canucks, bought P. Boure for five years for \$25 million. From that standpoint, let us now examine the tricks Chubais accomplished with help from the American experts.

On Nov. 8, 1994, the "democrats' " own favorite newspaper, *Moskovsky Komsomolets*, published stunning data from the secret Chubais list of the 500 biggest enterprises privatized in Russia:

- Russian Joint Stock Society (RAO) "Unified Power System"—\$649.6 million, or 26 klyukhas;
- RAO Russian Nickel—\$468.6 million, or 18.7 klyukhas;
- AO Gorky Automobile Factory—\$26.6 million, or 1 klyukha;
- Port of Novorossiysk—\$22.5 million, or 0.89 hockey-player klyukhas;
- Vnukovo airlines—\$21 million, or 0.84 klyukhas;
- Red October candy factory—\$21 million, or 0.84 klyukhas;
- "Krasnoye Sormovo" factory—\$21 million, or 0.84 klyukhas;
- Northern Shipping Line—\$3 million, or 0.12 klyukhas;
- Murmansk Trawler Fleet—\$3 million, or 0.12 klyukhas.

What normal person would come up with the idea of appraising Russia's only gateway to the Black Sea, the Port of Novorossiysk, at 0.89 of a hockey star's stick?! And where should the person be now, who did this not once, but 500 times? Yet, he is still in the government of Russia, in the post of deputy prime minister.

Who were the advisers and consultants of Chubais, Gaidar, Shokhin, et al.? In 1992 alone, more than 200 consultants came to Russia from abroad, on invitation from Chubais's agency. [The author lists 10 English and other foreign names, alleging some individuals to be career CIA or military intelligence agents.] Under Order #141, signed by Chairman of the State Property Committee Chubais, American citizen D. Hay was appointed chief of the section on foreign technical assistance and expertise. On Hay's initiative, Chubais established (Order #188 of the chairman the State Property Committee, Oct. 5, 1992) a committee of experts for mandatory review of all draft decrees of the President of Russia, government resolutions, and instructions of the chairman and deputy chairmen, concerning privatization in specific branches of Russian economy. Hay named himself to the chairmanship of this committee. . . . Only two members of the committee were Russian citizens. . . .

The continuation of Chubais's privatization policy pres-

ents a real threat to the national security, on the background of moral degeneration, the mass media's inculcation of a cult of violence and cruelty, the pernicious influence of foreign secret service agents, the collapse of the family, institutions of the State, and national traditions. This is recognized not only by the opposition, but also by devoted apologists of the presidential-government structures. On Nov. 18, 1994, Chairman of the Federal Counterintelligence Service S.V. Stepashin said: "Yes, there is a war going on, a real war with mass killings."

Chubais's secret list of the 500 major Russian enterprises privatized for a song and earmarked for foreign investors and so-called strategic owners, serves as a proof of the most grandiose looting in all human history: during the past 1,000 years, there is no similar example in any country, with no other people, of such a shameless sell-off of the national wealth. . . .

Detailed analyses of the list of 500 major Russian enterprises privatized by Chubais's agency, yields the following conclusions:

1. The real value of the enterprises sold is more than \$1 trillion, based on the market value of similar firms in the United States and western Europe. On orders from the overseas gentlemen, shock therapists sold them for a mere \$7.2 billion.

2. Of these 500 major Russian enterprises, some 80% were sold at auction for less than \$8 million. The price of 324 enterprises, out of the 500, was below \$4 million. The Ural Machine-Tool Factory (Uralsmash) in Yekaterinburg, employing 34,000 workers, was sold for \$3.72 million; Chelyabinsk Metallurgical Combine, with 35,000 workers, for \$3.73 million; Kovrovsky Mechanical Factory, supplying the entire Army, Ministry of Internal Affairs, and the special services with firearms, and employing 10,600 workers, for \$2.7 million; Chelyabinsk Tractor Factory, 54,300 workers, for \$2.2 million.

For comparison: An average bakery in Europe costs about \$2 million; a medium-sized Swiss sausage factory, \$3.5 million. . . . Thus Chubais's team equated the Chelyabinsk Tractor Factory to a bakery.

3. The State Property Committee's sale of 500 major enterprises was intentionally accomplished very fast, so that the State Duma could not monitor the process of privatization. From the beginning of the work of the Duma in January 1994 to July 1, 1994, that is, in six months, 284 enterprises were sold, while 110 had been sold during all of 1993. The 12 largest enterprises, priced at above \$37 million each, were sold at the tail-end of voucher privatization.

4. The value of one work place in major Russian industrial enterprises was underestimated a thousandfold. At the Volga Automobile Factory (VAZ), Chubais estimated one work place at \$81; at the Gorky Automobile Factory, \$244; at Uralsmash, \$109; at the Chelyabinsk Metallurgical Combine, \$105. Meanwhile, the price of a work place at newspapers has been overestimated to fantastic levels. For example, at

Izvestia, a newspaper with 310 employees, one work place has been estimated at \$50,000, so the value of one journalist working at *Izvestia* equals 331 workers at Moscow's Likhachov Automobile Factory (ZIL). . . .

Chubais turned everything upside down: Enterprises with huge machines and power equipment, producing real goods for national consumption, have a minimal valuation per work place, while work places in enterprises providing services and employing clerks are valued at tens of thousands of dollars. This was done artificially, so that big enterprises could be bought by structures involved in speculation, strategic owners from among the so-called "new Russians" or front companies, concealing foreign firms. For example, a front man named Vasili Yurevich Timofeyev from Tyumen region paid over 2 billion rubles to purchase 210 million shares of Gazprom, while a Georgian named Kavtaradze, living in Moscow, bought 51% of Uralsmash, thus becoming proprietor of the biggest defense plant, with the sole right of decision about the fate of 34,000 workers. Controlling share packets of the Bratsk and Krasnoyarsk aluminum companies were bought by the Chorny brothers, émigrés from the U.S.S.R. who are now Israeli citizens.

5. Under pressure from Chubais's American advisers, prices for defense enterprises were deliberately underestimated. Hay, the American, bought (through a shell company, Graniks) an experimental enterprise of the science and research institute Grafit, and 30% of the shares in a Moscow electrode factory. Thus he became the owner of a unique defense complex, which produces strategic graphite for construction of military rockets. As virtual owner of those enterprises, Hay insisted that the Grafit institute reject a defense order from the Russian military space forces, but it accepted an American order.

Polevanov's revelations

In October 1994, V. Polevanov was named chairman of the State Property Committee. After two months, he learned about such crimes against the State and the nation, committed during privatization, that he found the courage to write about it in a special memorandum to Chernomyrdin. In the last, fifth clause addressed to the prime minister, Polevanov directly laid all responsibility on Chubais for the economic, moral, political, defense, ecological, and material losses from privatization, suffered by our country and its people.

According to data from the Minister of Internal Affairs V.F. Yerin and Deputy Minister B.P. Stashko:

During 11 months of 1994, there were 1,684 crimes uncovered in the sphere of privatization, among which 127 had a particularly wide range.

Foreign companies acquired shares of the most profitable branches of the national economy:

1. In the aluminum industry, using false companies, Israeli citizens M. and L. Chorny, bought 28% of the shares of the Krasnoyarsk Aluminum Factory and 48% of the Bratsk Aluminum Factory.

2. The French firm Sepre is attempting to buy the only Russian factory for fireproof material. This factory is valued at \$145 million, but Sepre proposes to pay \$5.5 million for 35% of the shares.

3. The value of the buildings of the Moscow Institute for Management Training for the Chemicals Industry is an estimated \$100 million, yet they were sold for 8 billion rubles to a closed joint stock company, the International Entrepreneurship Academy, where the Austrian company Nordex GmbH and FPI each have 20% of the shares, and the Interprivatizatsiya Fund has 25%.

4. Foreign firms show the most interest in establishing joint ventures in oil extraction and natural gas and oil processing. In the Kroil joint venture, 40% of the shares belong to the Italian firm Comeli Petroli; in the Trios joint venture, 51% belong to the Dutch firm Holdor Topse; and so forth. . . .

'Privatization and national security'

1. Some 19% of the shares of AO Elektrosila (St. Petersburg) were purchased by the British company Mardima; Siemens plans to buy 20-25% of the shares. The goal is to eliminate Elektrosila from its traditional markets; it will be utilized for labor-intensive operations with unskilled and low-paid workers, while the main production will be conducted in their enterprises and sold under the Siemens brand.

2. [According to report #152/4745, Nov. 29, 1994, by First Deputy of the Foreign Intelligence Service of the Russian Federation V. Trubinkov], "Specialists from western European and American consulting firms claim that portfolio investments are of a speculative, short-term character. Compared to analogous firms in other countries, they are often based on an undervaluation of securities of Russian joint stocks and a possible fast increase of their quotations."

3. (From a letter of Federal Counterintelligence Service Chairman S.V. Stepashin, #1629-CH, June 24, 1994.) "In Primorye [in the Far East], the process of social stratification has acquired a permanent character, due to mistakes and abuses during privatization and the division of property; the process of reforms in many aspects is controlled by corrupt elements and the criminal sphere."

4. (From a joint letter of Foreign Intelligence Service Chairman Ye. Primakov and Federal Counterintelligence Service Chairman Stepashin, #151/9-17434, Aug. 28, 1994, "About tendencies in the policies of the West toward the Russian military industrial complex.") "As a whole, the West has acquired so many new technologies in Russia, that in order to analyze them, NATO has established a special program 'Information and technology compatibility of information technologies and global networks of the bloc countries and eastern European countries.' In the framework of this program, Russia specialists are invited to classify technologies acquired from Russia according to European standards, and to formulate proposals for their use."

5. Foreign investors actively try to purchase shares of oil and natural gas extraction firms, as well as in non-ferrous metals, transportation, communication, power generation, and the defense industry.

6. Shares of the aerospace industry have been purchased through front companies by the Nike Corp. (U.S.). It has already managed to buy 30% of the shares of the Moscow firm Aviazapchast [which produces spare parts for planes].

7. Shares of aluminum enterprises have been acquired by companies from the United States . . . Israel . . . [and] Ireland.

8. The American company New Century Investment Holding, through front companies, has bought shares of Russian long-distance communication companies in many regions of the country.

9. The number of shares acquired by foreign companies comprises 17% of the AO Unified Power System of Russia.

10. The American investment bank CS/First Boston bought 2.8% of the shares in the oil company LUKoil, 5% of the shares in AO Kagalymneftegaz, and 14% of the shares in Purneftegaz [which are also oil companies].

11. Baldwin Enterprises, Inc. (U.S.), through a front company (the joint stock company BK Bransvil, Ltd.), bought over 10% of the shares in the Komponent defense factory, 87% of whose production fulfills military orders from the General Staff of the Armed Forces and Russian Federal Counterintelligence. According to Komponent's charter, an owner of more than 10% of its shares has the right to have its representative on Komponent's executive board.

12. Siemens bought 20.3% of the shares in shares of AO Kaluga Turbine Plant, which develops and produces steam turbine devices for nuclear submarines.

13. Through two firms, AO MMM and Sadko-arkad, the American aerospace companies Boeing and Sikorsky bought at voucher auctions 28% of the helicopter factory M.L. Mil. Boeing's real goal is to eliminate from competition on the international market, [Russian] domestic production of aerospace technologies of this class. To this end, thanks to the possibilities of Aviabank commercial structures as a front, Boeing companies intend to take control of aerospace technology in AO Avis, the former Samara Aerospace Enterprise.

14. [The previously mentioned deal with Grafite.]

15. Some 500 large privatized Russian enterprises, with a real value of not less than \$200 billion, were indeed sold for a song (about \$7.2 billion) and ended up in the possession of foreign companies and their cut-outs. The companies sold for nothing include 77 metallurgical plants, 85 machine-tool factories, 66 in the oil industry, 65 in the chemicals industry.

All the abovementioned facts, of which more could be listed, document that there is a covert intervention of foreign capital in order to undermine the country's defense capabilities and economy, for the sake of the West's adopted strategy for "the guaranteed technological backwardness of Russia."