

# Georgia's Libertarian Revolution

## Part two: Bendukidze and Russian Capitalism

Berlin – Tbilisi – Istanbul

17 April 2010



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## 1. A biologist in Moscow

Kakha Bendukidze was born in Tbilisi in 1956 into a family of intellectuals. His father Avtandil was professor of mathematics at Tbilisi State University; his mother, Julietta Rukhadze, a historian and ethnographer. Bendukidze would later proudly describe a family with deep entrepreneurial roots:

“My grandfather was one of the first factory owners in Georgia. He came to Tbilisi before the revolution at the age of twelve. By the time he turned 18 he had already his own mechanical workshop in Tbilisi, I think, and by 1920 it had grown, there was a plant. And my grandfather’s brothers helped build the first railway bridge over the River Kura, as well as the first power plant in Georgia.”<sup>1</sup>

Bendukidze’s native Georgia had been part of the Tsarist Empire since the early 19<sup>th</sup> century. In 1918, Georgia declared its independence, only to fall to the invading Soviet Army in 1921 and see all private businesses closed down.

In 1977, the 21-year-old Bendukidze went to Moscow to complete his PhD in biology. It was the time of the “Stagnation Era” (*zastoy*), which the then-Soviet leader Leonid Brezhnev preferred to describe as the period of “developed socialism.” After graduating in 1980, Bendukidze worked at the Institute of Biochemistry of the Russian Academy of Science.<sup>2</sup> In 1985, he was appointed to head a laboratory specialising in molecular cell biology.<sup>3</sup> He was 29 at the time. In a later interview (1996), he described this environment as “unique”: “When you have many smart people in the same place, it is like having a lot of money in the same place. Very exciting.”<sup>4</sup>

1985 saw the arrival in power of a new man at the helm of the USSR – Mikhail Gorbachev – following the deaths of three septuagenarian leaders in quick succession (Brezhnev, Andropov and Chernenko). Confronted with the ever more apparent ossification of the Soviet system, he launched the reform policies of *perestroika* (restructuring) and *glasnost* (political openness).

The perestroika years brought a new sense of openness and experimentation to the Soviet Union, both politically and economically. The period from 1987 to 1989 witnessed the adoption of several pieces of legislation which paved the way for greater economic freedom. One milestone was the “Law on Cooperation in the USSR,” adopted in May 1988.<sup>5</sup> The law nurtured a budding private sector in the Soviet Union. Cooperatives (*kooperativy*) were granted full property rights and a free choice in determining the modes and volumes of

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<sup>1</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), 16 October 1996.

<http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>2</sup> “Biography of Kakha Bendukidze” (in Russian), *Grani.Ru*, Jun. 1, 2004.

<http://grani.ru/potter/Politics/World/Europe/Georgia/m.71678.html>

<sup>3</sup> “Kakha Bendukidze: A Biography” (in Russian), *News.Ru*, Nov. 3, 2005.

[http://newsru.com/background/03nov2005/kakha\\_print.html](http://newsru.com/background/03nov2005/kakha_print.html)[http://newsru.com/background/03nov2005/kakha\\_print.html](http://newsru.com/background/03nov2005/kakha_print.html)

<sup>4</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), Oct. 16, 1996.

<http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>5</sup> Tatyana Cheremisina, “From a Soviet Enterprise to a Legal Market Enterprise” (in Russian), *Mir Rossii*, no. 3, 2001, p. 115. [http://www.ecsocman.edu.ru/images/pubs/2006/10/07/0000291521/2001\\_n3\\_p105-120.pdf](http://www.ecsocman.edu.ru/images/pubs/2006/10/07/0000291521/2001_n3_p105-120.pdf)

production. Already in 1990, their revenues amounted to 8.7 percent of the gross national income.<sup>6</sup>

Bendukidze, too, joined the ranks of the first *kooperativy* trendsetters. In a 2005 interview, his former colleague at the Institute and later business partner Mikhail Mogutov spoke about the initial reasons for their transition to business activities:

“The government financing of science and research was being rapidly slashed and people had to do something about it – whether leaving or looking for other sources of financing. At that time, we did not understand what grants were, and this system was not developed in Russia anyway. So we wanted to do something that would bring profits and use the money to continue our laboratory work ... and then we understood that business in itself was a creative activity and could replace science.”<sup>7</sup>

## 2. How to Become an Oligarch

In 1987 Bendukidze founded the company Bioprocess with Mogutov and three other colleagues. He took the position of the Chairman of the Board of Directors and served in this role until the company’s dissolution in 1999.<sup>8</sup> Bioprocess was one of the first private companies in Russia to produce biochemicals for use in scientific research.<sup>9</sup> By 1989, Bendukidze was already wealthy. In 1996 he remembered:

“When I was appointed head of laboratory, my colleague Anatoly Altshtein told me, ‘Kakha, you’re already a Candidate of Science<sup>10</sup>, but you’re still wearing these patched up jeans.’ I told him, ‘But that’s the only pair I have... And in 1987, I was already earning seven to eight thousand roubles a month by doing biosynthesis. I had never earned that much. At that time, you could buy two cars for this money, or an apartment. And then I realized: actually, science is profitable!”<sup>11</sup>

An interviewer in 1996 noted that there were open questions about this period: “The history of your company and your personal history have a blank spot between 1988, when you were producing thin chemical compounds, and the moment when you started buying enterprises.”<sup>12</sup> These were years in which a lot of money could be made in many different ways, particularly trade. By 1991, Bioprocess was described as a “medium-sized trading and industrial company” with a turnover of roughly 10 million USD.<sup>13</sup> However, it was still too small to take

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<sup>6</sup> Tatyana Cheremisina, “From a Soviet Enterprise to a Legal Market Enterprise” (in Russian), *Mir Rossii*, no. 3, 2001, p. 115. [http://www.ecsocman.edu.ru/images/pubs/2006/10/07/0000291521/2001\\_n3\\_p105-120.pdf](http://www.ecsocman.edu.ru/images/pubs/2006/10/07/0000291521/2001_n3_p105-120.pdf)

<sup>7</sup> Mikhail Mogutov, “If You Are a Member of the Society, Live according to Its Principles” (in Russian), *Politcom.ru*, 18 July 2005. <http://is.park.ru/doc.jsp?urn=7809894>

<sup>8</sup> Mikhail Mogutov, “If You Are a Member of the Society, Live according to Its Principles” (in Russian), *Politcom.ru*, 18 July 2005. <http://is.park.ru/doc.jsp?urn=7809894>

<sup>9</sup> “Kakha Bendukidze: A Biography” (in Russian), *News.Ru*, Nov. 3, 2005. <http://www.newsru.com/background/03nov2005/kakha.html>

<sup>10</sup> Candidate of Science (*kandidat nauk*) is a post-graduate degree in Russia and some other former Soviet republics.

<sup>11</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), Oct. 16, 1996. <http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>12</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), Oct. 16, 1996. <http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>13</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), Oct. 16, 1996. <http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

advantage of the growing investment opportunities in Russia. A bigger, more powerful investment vehicle was needed.

In November 1991, Bendukidze and his partners, together with representatives of the Russian oil and gas industry and regional authorities, established the People's Oil Industrial Investment Euro-Asian Corporation, better known by its Russian acronym NIPEK:

“We were sitting in the “Peking” restaurant in Moscow and came upon this idea [to create NIPEK]. It was clear to us by then that we couldn't move forward without big markets. Or rather it was possible, but without big returns. We thought about oil, grain, such global products. And created NIPEK, during the Soviet times, under non-liberalized prices.”<sup>14</sup>

The timing was historic: several months earlier, in August 1991, a communist coup against Gorbachev had failed. One month later, in December 1991 the Soviet Union would officially cease its existence.

NIPEK was registered in Khanty-Mansiisk, a city in Western Siberia in a major oil and gas-producing region over 3,000 km from Moscow.<sup>15</sup> The majority stake in NIPEK, 53.6 percent, belonged to Bendukidze's Bioprocess and a Soviet-Lebanese company headed by Mikhail Mogutov. Twenty-eight percent in NIPEK belonged to the Moscow Petroleum Exchange (the largest oil trading entity in Russia); other investors included regional oil and gas companies.<sup>16</sup> Both Bendukidze and his business partner Mogutov were members of the Board of Directors. From the outset, Bendukidze played a leading role in NIPEK, frequently speaking in the press on behalf of the company.<sup>17</sup>

NIPEK launched a massive and very effective campaign to raise investment capital, with the participation of over a hundred brokerage firms across Russia, from Moscow to the Far East.<sup>18</sup> The company's connections to the oil and gas industry helped sustain investors' optimism. Optimistic press reports helped create a rush to buy NIPEK stocks.<sup>19</sup> As the *New York Times* reported in 1992, NIPEK set out to “raise three billion roubles for an ambitious but vague program of oil exploration, refining and processing,” achieving “stunning” success:

“Four days after it opened its doors to the public at sales offices across the territory of the old Soviet Union, the company had sold 300 million roubles' worth of shares at 1,000 roubles each, with the average sale five shares.”<sup>20</sup>

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<sup>14</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), Oct. 16, 1996.

<http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>15</sup> It is notoriously difficult to provide a foreign exchange equivalent for amounts in Soviet roubles, since the official exchange rate was highly overvalued. At 50 roubles per USD in November 1991, the capital could be estimated at 500,000 USD. Yet due to the rampant inflation, the exchange rate less than a year later was already estimated at 350 roubles per USD. Source: <http://www.okno.com/ewltr/archive/vol1/ru-ruble-v1n3.pdf>

<sup>16</sup> These included Nizhnevartovskneftegaz, Komineft, Orenburgneft, JSC Yugraneft, as well as the authorities of the Khanty-Mansiisk Autonomous District and the Tyumen Branch of the Foundation for Social Development of Russia “Vozrozhdenie.”

<sup>17</sup> “A Memo on Kakha, Who Bought Soviet Uralmash” (in Russian), *FLB*, <http://www.flb.ru/info/2909.html>

<sup>18</sup> Mikhail Nazarchuk, “The Peculiarities of the Formation of the Stock Market in the Russian Federation in the 1990's” (in Russian), 2008, p.2

[http://dspace.nbu.gov.ua:8080/dspace/bitstream/handle/123456789/4324/st\\_45\\_02.pdf?sequence=1](http://dspace.nbu.gov.ua:8080/dspace/bitstream/handle/123456789/4324/st_45_02.pdf?sequence=1)

<sup>19</sup> “A Memo on Kakha, Who Bought Soviet Uralmash” (in Russian), *FLB*, <http://www.flb.ru/info/2909.html>

<sup>20</sup> “Russians Take a Flier on Oil in Capitalism for the Masses”, *New York Times*, 19 January 1992.

<http://www.nytimes.com/1992/01/19/world/russians-take-a-flier-on-oil-in-capitalism-for-the-masses.html?pagewanted=all>



It was certainly one of the most successful marketing campaigns of the period, but for Bendukidze it was just the beginning.

The autumn of 1992 saw the launch of the massive privatization programme in Russia. On 1 October 1992, vouchers with a nominal value of 10,000 roubles each (about US\$63) were distributed to 144 million Russian citizens for purchase of shares in medium-sized and large enterprises. However, voucher holders could also sell them to investors, enabling those with access to cash to accumulate vast numbers of vouchers and a favourable starting position in the privatisation process.<sup>21</sup>

Having accumulated a large amount of capital through the investment fund NIPEK, Kakha Bendukidze set out to acquire vouchers to use them to purchase state-owned assets at knock-down prices. The enterprise that finally attracted his attention was Uralmash (Ural Heavy Machinery Plant), the legendary flagship of Soviet engineering. The company dominated the economy in the city of Ekaterinburg in the Middle Urals. Writer Maxim Gorky had famously called it “the father of factories” on account of its role in the Soviet industrialization process. Nikolay Ryzhkov, the last Soviet Premier (1985-1991), had been its General Director.

Uralmash produced equipment for the mining, casting, metallurgic and other sectors, drilling rigs and a multitude of other products. In the midst of the severe industrial downturn of the early 1990s, few in Russia were interested in heavy engineering. Bendukidze was quick to recognize the potential of Uralmash, despite its empty order books and a payroll of over 45,000 employees. Uralmash also produced primarily for the civilian sector and thus did not have to deal with the highly complicated task of conversion that many military plants were facing.

While some of his colleagues thought this acquisition was something “from the realm of fantasy,”<sup>22</sup> Bendukidze insisted on the purchase. As Russian business daily *Kommersant* reported, Bioprocess submitted 130,000 vouchers, thus obtaining an initial 18 percent stake in the enterprise.<sup>23</sup> In a 1995 interview with the *Financial Times*, Bendukidze claimed he had been able to buy the company for “one-thousandth of its real worth.”<sup>24</sup> This was not unusual: many of Russia’s most valuable assets were sold for only a fraction of their value.<sup>25</sup> In many auctions there was little competition:

“When we started doing serious business, there were very few investors like us ... So we would take our vouchers, come to an auction – and this involved tens of other enterprises besides Uralmash – and there was no one! There was no auction! So we would purchase our stake and leave.”<sup>26</sup>

The news of the sale of Uralmash to Bioprocess was received with a great deal of surprise in Russia. As *Kommersant-Vlast* wrote in 1993, it was

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<sup>21</sup> “Russia: Privatization”, [http://www.russiansabroad.com/russian\\_history\\_198.html](http://www.russiansabroad.com/russian_history_198.html).”

<sup>22</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), 16 October 1996.

<http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>23</sup> Alexander Kovalyov, “Uralmash Doesn’t Yet Know about Its New Owner” (in Russian), *Kommersant*, 25 May 1993. <http://www.kommersant.ru/doc.aspx?DocsID=48810>

<sup>24</sup> *Financial Times* (1995), cited in: Maksim Chizhov, “Becoming an Oligarch. The Infamous Millions” (in Russian), *Argumenty i Fakty*, Jun. 1, 2006.

<sup>25</sup> “Russian Privatization Revisited: A Debate between Goldman and Aslund,” *Beyond Transition*, December 2003- April 2004, pp. 23-26. <http://www.worldbank.org/html/prddr/trans/dec03apr04/pgs23-26.htm>

<sup>26</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), 16 October 1996. <http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

“the first time that such a large stake was bought not by a bank, or a foreign investor or a related enterprise, but a simple broker organization, even if it had extensive experience in the Russian market.”<sup>27</sup>

While Bioprocess took part in the auction, the vouchers submitted as payment were obtained through NIPEK. NIPEK also purchased a large number of other assets, many in the oil, coal and oil processing sector. In *Kremlin Capitalism* (1997), Blasi, Kroumova and Kruse write that NIPEK “bought shares in about 100 enterprises in the chemical and petrochemical industries and civilian machine building.”<sup>28</sup>

It was on the basis of Uralmash that Bendukidze established an industrial holding in 1996 under the name of *Ural Machine-Building Plants* (UMZ). In the same year, he became the chairman of the company’s Board of Directors.<sup>29</sup> With the 1998 acquisition of St Petersburg-based Izhora Plants, previously one of the main competitors of Uralmash in the area of mining equipment and a manufacturer of nuclear reactors,<sup>30</sup> the holding was renamed United Machine-Building Plants (OMZ).<sup>31</sup> Bendukidze became its General Director in 1998 and stayed in this position until the spring of 2004.<sup>32</sup> He launched a radical restructuring, sold “non-profile” production facilities, cut costs and dismissed workers.<sup>33</sup> Over a span of just a few years, the employment at Uralmash, the core production facility of OMZ, fell by more than half, from 45,000 employees in 1993 to only 19,000 workers in 1995.<sup>34</sup> By 2003, this number would be further reduced to a mere 5,800 workers.<sup>35</sup> In April 2004, planning to expand its nuclear and steel businesses, OMZ acquired two subsidiaries of the Skoda holding in the Czech Republic, including the division producing equipment for nuclear power plants.<sup>36</sup>

Not everyone was happy about the changes at Uralmash.<sup>37</sup> The authorities in Ekaterinburg, where Uralmash production facilities are located, denounced Bendukidze’s management decisions. In March 2006 the regional governor accused Bendukidze of bringing Uralmash into a critical condition:<sup>38</sup> “It’s all Bendukidze’s fault. In fact, he destroyed the plant. He split Uralmash into five enterprises and privatized them.”<sup>39</sup> However, OMZ as a whole turned out to be a good performer. By 2000, OMZ had greatly strengthened its positions in a number of fields. It was producing 70 percent of the drilling equipment in Russia, over 90 percent of mining equipment, 78 percent of metallurgic equipment and about 50 percent of equipment

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<sup>27</sup> “Bioprocess Company Bought a Controlling Stake in Uralmash” (in Russian), *Vlast* 20, May 24, 1993. <http://www.kommersant.ru/doc.aspx?DocsID=7903&print=true>

<sup>28</sup> Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: The Privatization of the Russian Economy* (Cornell University Press, 1997): p. 156.

<sup>29</sup> “Interview with Kakha Bendukidze, General Director of OMZ: The Balance Is Broken” (in Russian), *Vedomosti*, no. 19 (2059), 5 February 2004. [www.vedomosti.ru/newspaper/article/2004/02/05/71986](http://www.vedomosti.ru/newspaper/article/2004/02/05/71986)

<sup>30</sup> Interfax, “Company Profile: Uralmash Plants” (in Russian), Interfax (id: MTFQBAAA), 3 November 1997.

<sup>31</sup> OMZ, Company Profile, <http://www.omz.ru/eng/overview/profile/>

<sup>32</sup> Renata Yambayeva, “Machine-Building” (in Russian), *Kommersant Vlast*, no. 25 (578), 28 June 2004. <http://www.kommersant.ru/doc.aspx?DocsID=485771>

<sup>33</sup> OMZ, Annual Report 2002, p. 4. <http://www.omz.ru/media/investors/annual/AR-2002-rus.pdf>

<sup>34</sup> “Restructure or die,” *Economist*, 4/8/95, vol. 335, Issue 7909.

<sup>35</sup> OMZ, Annual Report 2002, p. 33. <http://www.omz.ru/media/investors/annual/AR-2002-rus.pdf>

<sup>36</sup> Libor Kukal, „Kakha Bendukidze Bought a Part of Skoda“ (in Russian), *Cesky Rozhlas*, 26 April 2004. <http://www.radio.cz/ru/statja/53175> See also: OMZ, <http://omz.ru/eng/>.

<sup>37</sup> Maksim Kotin, “To Be Left Alone” (in Russian), *Kommersant – Sekret Firmy*, no. 47 (134), 12 December 2005. <http://kommersant.ru/doc.aspx?fromsearch=1e529101-34f0-4a6a-9cc9-a755cf0f71cf&docsid=862333>

<sup>38</sup> “Bendukidze Destroyed Uralmash, Said Rossel” (in Russian), 29 March 2006. <http://tass-ural.ru/lentanews/26261.html>

<sup>39</sup> “It’s All Bendukidze’s Fault” (in Russian), *API*, 29 March 2006. <http://www.apiural.ru/politic/?art=20220>

for nuclear power plants.<sup>40</sup> In 2003, it became the fourth Russian company to receive a full listing on the London Stock Exchange ;<sup>41</sup> in 2004, *Global Finance* journal named OMZ the best Russian company in the field of engineering,<sup>42</sup> and a year later, the renowned Russian Ekspert agency announced that “OMZ demonstrated the best results in the growth of rouble-denominated revenues over the previous 10 years among the 400 biggest Russian companies.”<sup>43</sup>

### 3. Big Business and Russian Politics

Bendukidze’s wealth, as compared to the assets of Russian billionaires, was relatively modest, with most estimates placing it in the range of 50 to 70 million USD in 2004.<sup>44</sup> In a recent interview, he jokingly called himself a “mini-oligarch” at best.<sup>45</sup>

However, Kakha Bendukidze was always more than simply an investor and manager. In a 1996 ranking produced by the polling agency Vox Populi, Bendukidze was ranked 33<sup>rd</sup> among Russia’s top 50 most influential businessmen wielding the biggest influence on government economic policy.<sup>46</sup> A 2004 article in *Kommersant* credited Bendukidze with being the first to “realise the need to create a lobbying structure that would be able to promote the interests of big business in a civilized way.”<sup>47</sup> Bendukidze cared about politics and he had ideas about the way the Russian economy ought to develop.

In 1992, together with Mikhail Khodorkovsky, soon to become Russia’s most famous oligarch, and Vladimir Gusinsky, a future media baron, Bendukidze became one of the founding members of the Entrepreneurial Political Initiative-92 (EPI).<sup>48</sup> The group was formed in December 1992 amidst a mounting conflict between President Yeltsin and the Supreme Soviet.<sup>49</sup> The EPI sought to be “a respectable force” on the right of the political spectrum which would help avert the escalation of civil conflict in the country.<sup>50</sup> Although EPI did not exist very long, it was one of the first attempts to achieve political representation for business in Russia.<sup>51</sup> In December 1993, Bendukidze also ran unsuccessfully for the

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<sup>40</sup> Denis Prokopenko, “Kakha Bendukidze’s Plans to Buy Krasnoe Sormovo under Fire” (in Russian), *Nezavisimaya Gazeta*, 14 March 2000. <http://www.ng.ru/printed/5772>

<sup>41</sup> OMZ, “OMZ Stocks,” <http://www.omz.ru/eng/investors/stocks/>

<sup>42</sup> “Cover Story: Stars of the New Russia,” *Global Finance*, April 2004, <http://www.gfmag.com/archives/74-74-april-2004/1922-cover-story--stars-of-the-new-russia.html>

<sup>43</sup> OMZ Group official website, “History,” <http://www.omz.ru/eng/overview/history/>.

<sup>44</sup> Mikhail Berger, “Khuatsyo Bendukidze” (in Russian), *Ezhenedelnyy Zhurnal*, no. 123, 8 June 2004.

<http://supernew.ej.ru/123/life/profile/benduk/index.html>

<sup>45</sup> Dmitry Bykov, “Russia Will Change When I Become Slimmer” (in Russian), *Profile*, no. 4 (607), 9 February 2009. <http://www.profile.ru/items/?item=27982>

<sup>46</sup> “Interfax Publishes a Ranking of Russia’s 50 Most Influential Businessmen” (in Russian), *Interfax*, 12 January 2006.

<sup>47</sup> Vera Sitnina, Irina Sklyarova, Mikhail Vignansky, Semyon Novoprudsky, “Capitalist Drain: Kakha Bendukidze Trades Business in Russia for a Ministry in Georgia” (in Russian), *Vremya Novostey Online*, no. 94, Jun. 2, 2004. <http://www.vremya.ru/2004/94/52/99673.html>

<sup>48</sup> “Kakha Bendukidze: Biography” (in Russian), *Newsru.com*, 3 November 2005.

<http://www.newsru.com/background/03nov2005/kakha.html>

<sup>49</sup> Russian Professional Portal on Lobbyism and GR, “Personalities: Vladimir Lepekhin” (in Russian),

[http://www.lobbying.ru/content/persons/id\\_7\\_linkid\\_1.html](http://www.lobbying.ru/content/persons/id_7_linkid_1.html)

<sup>50</sup> Aristarkh Vladimirov, “A New Initiative of the Business Circles: The Coalition Will Join a Neoconservative Political Bloc” (in Russian), *Kommersant*, no. 037, 2 March 1993.

<http://www.kommersant.ru/doc.aspx?DocsID=40555>

<sup>51</sup> Aristarkh Vladimirov, “A New Initiative of the Business Circles: The Coalition Will Join a Neoconservative Political Bloc” (in Russian), *Kommersant*, no. 037, 2 March 1993.

<http://www.kommersant.ru/doc.aspx?DocsID=40555>



Duma as a member of the entrepreneurial political bloc Transformation.<sup>52</sup> And in 1993, Kakha Bendukidze joined Ivan Kivelidi, a major financier, in creating a lobby group called the Round Table of Russian Business.

In the Russia of the 1990s, business was a dangerous activity; combining business with politics, even more so. Several colleagues of Bendukidze's in the Round Table were murdered in contract killings, including, in 1995 alone, Vladislav Listyev, a famous Russian journalist; Oleg Kantor, President of Yugorsky Bank; and Ivan Kivelidi himself, chairman of the group.<sup>53</sup> In 2000, Paul Klebnikov, the editor of Russian *Forbes*, wrote about this murder:

“One of Russia's most respected businessmen, Ivan Kiveldi, a major chemicals industrialist, chairman of Rosbusiness Bank and founder of the Russian Business Roundtable, was disposed of in particular gruesome fashion. Someone rubbed an obscure nerve toxin onto the telephone receiver in his office; he collapsed, frothing at the mouth, and died three days later. Murder had become a form of dealing with business competition.”<sup>54</sup>

Several years later, the new managing director of Uralmash, Oleg Belonenko, would be shot as well.<sup>55</sup> The full details of all the murders still remain unknown. In July 2004, Klebnikov himself would be slain in a contract killing in Moscow, which remains unsolved.

In a 1996 interview, Bendukidze said that he once used to ride in a “bullet-proof jeep” and complained that having security guards was a burden: “Security guards really do have an impact on my life. It's like being in the grip of a vise, and you feel like a part squeezed inside of it. It's like being under house arrest, only the name is different ... The house where I live is just a normal house. But the entire house is guarded. This was my neighbour's idea.”<sup>56</sup> When asked by a *Kommersant* interviewer at the time about the best way to deal with the rampant criminalisation of Russian society, Bendukidze argued for tough measures:

“Shoot all the bandits. The only way to stabilize the situation is through a harsh authoritarian regime aimed at the transition to the normal economy, aimed at freeing people from slavery and at developing democracy. A kind of a Taiwanese-Chilean way, so to say.”<sup>57</sup>

#### 4. Vladimir Putin's authoritarian liberalism

On 31 December 1999, Russian President Boris Yeltsin delivered his traditional annual address on television. Many saw the 1990's as a “lost decade” for Russia, which was characterized by a deep industrial downturn, mass impoverishment, resurgent separatism, rampant criminality, the growing weakness of the state and the rise of powerful business interests. In what came as a surprise to most Russians, Yeltsin announced his resignation,

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<sup>52</sup> “Kakha Bendukidze: A Biography,” *FactNews*, Nov. 3, 2005.

[http://www.factnews.ru/article/03nov2005\\_kakha/](http://www.factnews.ru/article/03nov2005_kakha/)

<sup>53</sup> “Dead and Alive: On the Murders of the Members of the Round Table of Russian Business” (in Russian), *Kommersant*, no. 161 (879), 2 September 1995, <http://www.kommersant.ru/doc.aspx?DocsID=116682>

<sup>54</sup> Paul Klebnikov, *Godfather of the Kremlin – The Decline of Russia in the Age of Gangster Capitalism* (New York: Harcourt, Inc, 2000), p. 32.

<sup>55</sup> Patrick Cockburn, “Gang shoots dead businessman who confronted mafia,” *The Independent*, 11 July 2000. <http://www.independent.co.uk/news/world/europe/gang-shoots-dead--businessman-who-confronted-mafia-707946.html>

<sup>56</sup> “Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), 16 October 1996. <http://www.kommersant.ru/doc-rss.aspx?DocsID=19985>

<sup>57</sup> “Coolness Won't Help You Dodge the Bullet” (in Russian), *Kommersant*, no. 149 (867), 17 August 1995. <http://kommersant.ru/doc.aspx?fromsearch=11f14602-0c4c-4ce8-88a2-b9c154c35966&docsid=115372>

saying that he decided to make way “for a new generation – the generation of those who can do more and do it better.”<sup>58</sup> The then-Prime Minister Vladimir Putin became acting president of Russia. Several months later, in the presidential elections of March 2000, Putin emerged as a clear winner with 52.94 percent of the popular vote.<sup>59</sup>

Putin, who had already become known for his hardline stance on Chechen separatists, set out to strengthen the power of the federal centre. One of his first steps was to take on the oligarchs who had grown increasingly powerful and politically influential during the Yeltsin era. In July 2000, Putin invited some twenty of Russia’s top oligarchs, including Bendukidze, to the Kremlin for a meeting. Putin’s liberal advisors, led by Andrei Illarionov, emphasised the need to improve the business climate in Russia and attract foreign investment. The oligarchs themselves were fearing a possible revision of privatization results which were widely viewed as illegitimate by the Russian population.<sup>60</sup> Bendukidze used the opportunity to voice his own views on taxation, saying “Until the tax rates are lowered, every businessman is a criminal.”<sup>61</sup>

Putin opened the meeting in an assertive tone, telling the oligarchs that they had no business criticising the state, since they themselves had created the system.<sup>62</sup> The results of the meeting were ambiguous. On the one hand, Putin promised that there would be no “deprivatization.” On the other hand, he clearly communicated to the oligarchs that, should they refuse to play by the rules set by the state, they would be punished. Olga Kryshtanovskaya summarised the outcome as follows: “The essence of the agreement was mutual non-interference: Putin would not interfere in the oligarchs’ businesses on the condition that the oligarchs would not interfere in politics.”<sup>63</sup>

The most important stage in Bendukidze’s political activities began in 2000, the beginning of the Putin era, when he became an active member of the Russian Union of Industrialists and Entrepreneurs (RSPP).<sup>64</sup> Bendukidze headed the Working Group on Tax and Currency Regulations Reform. According to Russian analyst Pyotr Kaznacheev, Bendukidze “was for a long time the informal leader of the liberal wing of the RSPP, always bringing his radical reform proposals into this rather eclectic structure”, much to the chagrin of the older industrial managers.<sup>65</sup> He continually insisted that, given the presence of the large “grey” (shadow) sector in the Russian economy, the only way to provide incentives for business to enter the

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<sup>58</sup> “The Statement of Boris Yeltsin” (in Russian), Moscow, Kremlin, 31 December 1999.

[http://archive.kremlin.ru/appears/1999/12/31/0003\\_type82634\\_119554.shtml](http://archive.kremlin.ru/appears/1999/12/31/0003_type82634_119554.shtml)

<sup>59</sup> OSCE/ODIHR, *Russian Federation. Presidential Election, 26 March 2000. Final Report*, Warsaw, 19 May 2000, p. 32. [http://www1.osce.org/documents/odihr/2000/05/1449\\_en.pdf](http://www1.osce.org/documents/odihr/2000/05/1449_en.pdf)

<sup>60</sup> Konstantin Smirnov, “The President’s Tough Embrace” (in Russian), *Kommersant – Dengi*, no. 30 (283), 02 August 2000. <http://kommersant.ru/doc.aspx?fromsearch=fcb39eab-24d2-48a4-9bf7-7ee1ab99992c&docsid=24660>

<sup>61</sup> Sabrina Tavernise, “Putin, Exerting His Authority, Meets with Russia’s Tycoons,” *New York Times*, 29 July 2000. <http://www.nytimes.com/2000/07/29/world/putin-exerting-his-authority-meets-with-russia-s-tycoons.html>

<sup>62</sup> “Resetting’ the Oligarchs in the Kremlin” (in Russian), *Kommersant*, no. 138 (2023), 29 July 2000. <http://kommersant.ru/doc.aspx?fromsearch=f71b8de0-762d-41fd-b83e-61daf193a3ef&docsid=154224>

<sup>63</sup> Olga Kryshtanovskaya, “An Exhausted Resource,” *Russia in Global Affairs*, no. 3, July - September 2009, <http://eng.globalaffairs.ru/numbers/28/1291.html>

<sup>64</sup> Guriev and Rachinsky, “Oligarchs: The Past or the Future of Russian Capitalism?” July 2004.

<sup>65</sup> Petr Kaznacheev, „Liberalism at the DJ Console,” Dec. 24, 2006. <http://kaznacheev.com/site/?q=author/texts/politics/2>

legal sphere was through sizeable tax reductions.<sup>66</sup> Bendukidze’s advocacy during this time focused on tax reform and resisting government intervention in the economy.<sup>67</sup>

In a speech in April 2001, Putin outlined a programme of liberal market reforms as necessary to stimulate Russia’s modernisation and development. Lilia Shevtsova, a renowned Russian scholar, noted that at the time “People close to the Kremlin were talking about a combination of mild authoritarianism and market liberalism as a remedy for Russian problems.” Putin’s speech, she wrote, meant “that the ruling team had declared its direction and the use Putin planned to make of his omnipotence: He would modernize the economy.”<sup>68</sup>

The reforms announced by Putin in 2001 in Russia bear a striking resemblance to the reforms later carried out in Georgia under Mikheil Saakashvili. Shevtsova wrote that Putin

“gave the Duma a package of draft laws that encompassed judicial reform, a land code, pension reform, changes in tax legislation and the regulation of business, and a new labour code. What he did in the spring 2001 looked like a revolution.”<sup>69</sup>

The simplification of licensing requirements for businesses was another example of a deregulatory measure intended to reduce corruption – at least at the petty level. In Shevtsova’s words, the Russian reformers

“significantly reduced the number of licences that businesses had been required to obtain, and therefore the opportunity for bureaucrats to extract bribes and interfere with the market. The proposed legislation, however, seemed to deal mostly with corruption among minor clerks; as observers joked, bribery was put under the control of higher administration.”<sup>70</sup>

All of these measures would later be tried in Georgia after Bendukidze’s arrival. In Russia at the time, Bendukidze coordinated the RSPP’s campaign for free movement of capital. In 2001, enterprises earning revenue abroad were obliged by law to repatriate 75 percent to Russia. In what proved a significant lobbying victory for Bendukidze,<sup>71</sup> Vladimir Putin eventually agreed to lowering the threshold from 75 to 50 percent.<sup>72</sup> This was one crucial step toward more extensive capital liberalisation a few years later.

One of the best-known liberal reforms in Russia was the introduction of the 13 percent flat tax on personal income in 2001. The reform was described by IMF economists as “extraordinarily influential” and “arguably the most important tax reform of the last decade.”<sup>73</sup> In 2002, revenues from personal income tax increased by about 26 percent in real terms<sup>74</sup> in what has

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<sup>66</sup> Elena Lashkina, “A Business Plan for the Government” (in Russian), *Rossiiskaya Gazeta*, no. 3451, Apr. 9, 2004. <http://www.rg.ru/2004/04/09/rspp.html>

<sup>67</sup> Olga Proskurnina, Denis Malkin, “Bendukidze, Homeless and Unemployed” (in Russian), *Vedomosti*, 23 (no. 2293), Feb. 10, 2009. <http://www.vedomosti.ru/newspaper/article/2009/02/10/180892>

<sup>68</sup> Lilia Shevtsova, *Putin’s Russia*, Carnegie Endowment for International Peace, 2003, p. 189.

<sup>69</sup> Lilia Shevtsova, *Putin’s Russia*, Carnegie Endowment for International Peace, 2003, p. 188.

<sup>70</sup> Lilia Shevtsova, *Putin’s Russia*, Carnegie Endowment for International Peace, 2003, p. 189.

<sup>71</sup> Dmitry Simakov, “The Company of the Week: And Still, It’s a Chaebol” (in Russian), *Vedomosti*, Mar. 25, 2003.

<sup>72</sup> “Not Just Old Wives’ Tales” (in Russian), *Vedomosti*, 114 (no. 437), Jul. 2, 2001.

<http://www.vedomosti.ru/newspaper/article/2001/07/02/30656>

<sup>73</sup> Anna Ivanova, Michael Keen, and Alexander Klemm, “The Russian Flat Tax Reform,” *IMF Working Paper WP/05/16*, January 2005, p. 4. <https://www.imf.org/external/pubs/ft/wp/2005/wp0516.pdf>

<sup>74</sup> Anna Ivanova, Michael Keen, and Alexander Klemm, “The Russian Flat Tax Reform,” *IMF Working Paper WP/05/16*, January 2005, p. 4. <https://www.imf.org/external/pubs/ft/wp/2005/wp0516.pdf>

been described by some as an economic miracle.<sup>75</sup> Commenting on the flat income tax rate, Bendukidze praised it as the only truly positive element in the entire tax reform in Russia:

“Liberalization happened only in one area – namely, the introduction of a flat 13 percent rate of income tax. In this regard, I think, the tax system of Russia is one of the most liberal in the world, is better than the tax system in any European country or in the USA. In all other regards, there has been no liberalization.”<sup>76</sup>

Bendukidze would later push for a similar reform in Georgia, going one percent better with a 12 income percent tax rate.

As a key figure in the RSPP tax reform campaign, Bendukidze was frequently consulted by high-level government officials. For instance, in January 2003 Russian business daily *Vedomosti* reported:

“Two days prior to introducing their own tax reform proposals, the Minister of Finance Aleksei Kudrin and Minister of Economic Development German Gref decided to discuss their proposals with Kakha Bendukidze, the head of the Tax Division of the Russian Union of Industrialists and Entrepreneurs. The tax ideas pushed through by the oligarchs are still too liberal not only for Kudrin, but also for Gref ...”<sup>77</sup>

Bendukidze argued that if tax cuts were combined with the fight against illegality, the state budget would actually benefit from such measures.<sup>78</sup>

Bendukidze became recognized in Russia as a leading libertarian, consistently advocating deregulation and promoting free market principles. *Rossiiskaya Gazeta* columnist Tretyakov described Bendukidze as “one of the most consistent proponents of liberal economics among Russian businessmen.”<sup>79</sup> Bendukidze’s interests were in economic freedoms, and he had little to say in public about the development of democracy in Russia. This explains why he was able to embrace Putin’s approach in the beginning.

In his April 2001 address to the Federal Assembly, Vladimir Putin not only stressed the importance of modernisation but also made a strong case for a recentralisation of political power. He underlined that “we need a consolidated and effective state power system in order to act on urgent social and economic problems and security issues.”<sup>80</sup> In November 2003, *Kommersant* characterized Putin’s liberalism as follows:

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<sup>75</sup> Yuriy Gorodnichenko, Jorge Martinez-Vazquez, Klara Sabirianova Peter, “Myth and Reality of Flat Tax Reform: Micro Estimates of Tax Evasion Response and Welfare Effects in Russia.” *Journal of Political Economy*, June 2009.

<sup>76</sup> Yuri Kuznetsov, “Interview with Kakha Bendukidze: Taxes in Exchange for Services. Read the List!” (in Russian), *Otechestvennyye Zapiski*, no. 4-5 (5), 2002. <http://www.strana-oz.ru/?article=250&numid=5>

<sup>77</sup> Natalya Neymysheva, “The Oligarchs Want Too Much from the Tax Reform” (in Russian), *Vedomosti* 13 (no. 813), Jan. 29, 2003. <http://www.vedomosti.ru/newspaper/article/2003/01/29/57298>

<sup>78</sup> Natalya Neymysheva, “The Oligarchs Want Too Much from the Tax Reform” (in Russian), *Vedomosti* 13 (no. 813), Jan. 29, 2003. <http://www.vedomosti.ru/newspaper/article/2003/01/29/57298>

<sup>79</sup> Vitaliy Tretyakov, “Bendukidze’s Mission” (in Russian), *Rossiiskaya Gazeta* (Federal issue), no. 3492, Jun. 3, 2004. <http://www.rg.ru/printable/2004/06/03/bendukidze.html>

<sup>80</sup> Vladimir Putin, “Annual Address to the Federal Assembly of the Russian Federation,” Moscow, Kremlin, 3 April 2001. [http://eng.kremlin.ru/speeches/2001/04/03/0000\\_type70029type82912\\_70660.shtml](http://eng.kremlin.ru/speeches/2001/04/03/0000_type70029type82912_70660.shtml)

“Vladimir Putin’s liberalism has a rather one-sided nature. The President acts as a liberal only in the economic sphere, whereas he is less interested in political liberal values (his project of building the strong “vertical of power” serves as proof of this disinterest).”<sup>81</sup>

Later, in a 2009 interview, Bendukidze expressed the view that a strong executive government was much more suitable for a developing, modernizing country like Georgia than “a weak parliamentary republic where the government does not have the support of the parliament.”<sup>82</sup> By that time the effort to combine mild authoritarianism and economic liberalism had moved to Tbilisi.

## 5. Leaving Russia (2004)

By 2004, Kakha Bendukidze had satisfied his business ambitions and could credit himself with some success in his lobbying activities. But Bendukidze was also very aware of the changing climate in Russia, with the government increasing its control over big business. In October 2003 Russia’s most influential oligarch Mikhail Khodorkovsky was arrested on a runway in a Siberian airport on charges of fraud and tax evasion. In 2004, *Forbes* still named him the richest man in Russia, with an estimated net worth of USD 15 billion.<sup>83</sup> Khodorkovsky himself stated in a 2005 interview with *Ekho Moskvyy* radio station:

“I am convinced that I was put in prison not because of politics but because they wanted to take Yukos away. Politics was just a pretext. If I had not helped oppositional parties in 2003, they would have found a different pretext.”<sup>84</sup>

Unlike Khodorkovsky, who had turned into an outspoken advocate of political liberalism and civil liberties, Bendukidze concentrated on promoting economic liberalisation. Nevertheless, the state’s growing influence, accompanied by the strengthening of the role of such state-controlled enterprises as Gazprom, went against Bendukidze’s libertarian beliefs. The progressive nationalisation of strategic industries also signalled to Bendukidze that the government was taking a more assertive, even hostile, position towards big business, and that his own business interests were at risk.

Already in 2003, Bendukidze felt the impact as his company made inroads into the jealously guarded nuclear energy sector. In 2003, OMZ purchased a controlling stake (53.8 percent) in Atomstroieksport (ASE), the Russian monopolist in construction of nuclear plants abroad.<sup>85</sup> This turned the government into a minority shareholder in a deal strongly opposed by the

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<sup>81</sup> “The Deck of the Russian Federation” (in Russian), *Kommersant- Vlast*, no. 46 (549), 24 November 2003.  
<http://www.kommersant.ru/doc-rss.aspx?DocsID=430202>

<sup>82</sup> Discussion with Bendukidze (in Russian), March 2009, published on empedocl’s Livejournal blog,  
<http://empedocl.livejournal.com/54620.html>

<sup>83</sup> *Forbes*, “World’s Richest People: Mikhail Khodorkovsky,” May 2004.  
<http://www.forbes.com/finance/lists/10/2004/LIR.jhtml?passListId=10&passYear=2004&passListType=Person&uniqueId=M11F>

<sup>84</sup> “Interview with Mikhail Khodorkovsky” (in Russian), *Ekho Moskvyy*, 9 September 2005.  
<http://archive.khodorkovsky.ru/speech/3394.html>

<sup>85</sup> Atomstroieksport (ASE) established in 1998, is a Russian company that constructs nuclear plants abroad. ASE has built over 10 nuclear plants in Eastern Europe, Finland, and Asia. In 2003, the company was the general contractor for nuclear plant construction projects in India (“Kudankulam”), China (“Tiangwan”), and Iran (“Busher”). Among ASE’s subcontractors there are tens of Russian engineering and construction companies. In 2002, ASE’s turnover reached approximately 640 million USD, and the portfolio of orders reached about 2.9 billion USD.



Russian Nuclear Ministry.<sup>86</sup> In February 2004, Bendukidze resigned from the position of the President of the JSC Atomstroiekспорт.<sup>87</sup> In the following year, he would sell his OMZ assets in Russia to Gazprombank, which would hand OMZ’s nuclear assets back to the state.

In late May 2004, Kakha Bendukidze arrived in Tbilisi as a member of the Russian delegation to the Russian-Georgian Economic Forum,<sup>88</sup> which took place during a positive period in the relations between the two countries. It was during this event that he was invited to a private meeting with President Saakashvili and the late Georgian Prime Minister Zurab Zhvania. That Bendukidze attracted the government’s attention was not surprising – he was Georgian, wealthy, and well known as a vocal advocate of liberal economic reforms. The four-hour conversation resulted in Saakashvili and Zhvania offering Bendukidze the chance to become Minister of Economy and coordinate the reforms himself.<sup>89</sup>

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<sup>86</sup> Yekaterina Godlevskaya, “Gazprombank Relinquished Atomstroiekспорт” (in Russian), *RBC Daily*, 21 January 2009. <http://www.rbcdaily.ru/2009/01/21/industry/398201>

<sup>87</sup> “OMZ General Director Kakha Bendukidze Resigned from Atomstroiekспорт Presidency” (in Russian), *Rol.ru News*, Feb. 6, 2004. [http://www.rol.ru/news/misc/newsreg/04/02/06\\_050.htm](http://www.rol.ru/news/misc/newsreg/04/02/06_050.htm)

<sup>88</sup> Civil.ge, Russian-based Tycoon Nominated as Georgia’s Economy Minister, 1 June 2004. <http://www.civil.ge/eng/article.php?id=7043>

<sup>89</sup> Alexander Bekker, “Interview: Kakha Bendukidze, the Minister of Economy of Georgia: ‘Georgia Has Nothing to Lose’” (in Russian), *Vedomosti* 93 (1133), 2 June 2004. <http://www.vedomosti.ru/newspaper/article/2004/06/02/76569>

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