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THE INTERNET JERUSALEM POST

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Russian Jewish Oligarchs Under Siege

The rise and fall of Russia's Jewish tycoons

By *Yehezkel Laing*

HE lives in a \$3.7 million home in Herzliya Pituah and his net worth was recently estimated at \$4.1 billion. He was just crowned "the richest person in Israel" by the Israeli press. No, it's not **Steff Wertheimer**, not **Lev Leviev** and not even **Sammy Ofer**. Try **Leonid Nevzlin**.

If the name is unfamiliar, you're not alone. Only a little over a year in Israel, Nevzlin recently became the major shareholder in Russia's biggest oil company, Yukos, after its principal shareholder **Mikhail Khodorkovsky**, who is in trouble with the Russian authorities, gave him his 60 percent share.



To understand the size of Yukos, consider that in 2002 alone it posted annual revenues of \$11 billion and a net profit of \$3b.

But the title of richest Israeli may be premature, as Nevzlin's wealth is only on paper. The assets of the company he controls have been seized by the government, which is seeking more than \$27 billion in back taxes. Some say that Yukos's strength was the source of its weakness. By becoming so wealthy and so powerful, the Yukos group posed a threat to the powers that be.

Nevzlin claims that **Putin** is taking revenge on him and Khodorkovsky for supporting Putin's opponents in the last elections. To escape an arrest warrant, Nevzlin fled to Israel in October 2003. He came with two other Jewish heads of Yukos, **Vladimir Duvdov** and **Michail Brodno**, who together own 22% of the company, or \$7 billion worth. Yukos head Khodorkovsky, also Jewish,

wasn't as lucky. Once considered Russia's richest man, worth an estimated \$15 billion, he has sat for the past year in a Russian jail. According to the Russian press, Nevzlin took control of Khodorkovsky's stake in Bank Menatep under a shareholder agreement foreseeing a transfer of ownership if Yukos were stripped of substantial assets.

To recover punitive tax claims against Yukos, the Russian government recently sold Yukos's daughter company Yugensk at what many believe was a rigged auction. Yugensk pumps one million barrels a day, accounting for 60% of Yukos's total output. The winner of the auction was Baikal Finans, an unknown outfit registered in a provincial Russian town. It paid \$9.4b. for the company. Only a few weeks later the state oil firm, OAO Rosneft, took over Baikal Finans and installed its own management team, so Yugensk is now back in the hands of the Russian state.

Some have expressed fears that the re-nationalization of Yukos represents a reversal of the privatization of Russian industry and could lead to lower GDP growth. Economists say that if the fall of Yukos was an anomaly, then the Russian economy need not be overly concerned, but if it is part of a grander political plan, then trouble lies ahead.

THE **FAIRYTALE** story of how Nevzlin and other Jews became Russian oligarchs starts almost 20 years ago. In 1987, Nevzlin and Brodno were simple computer programmers working for the government. One day Nevzlin saw a small ad -- a marketing company was offering its services to computer firms. He called and Khodorkovsky answered. The two men eventually became friends, and together established Bank Menatep.

Shortly thereafter, Prime Minister **Boris Yeltsin** began the privatization scheme which was to become the source of wealth for many Jewish tycoons. His government began distributing vouchers in public companies to Russian citizens. But to the disappointment of the public, the vouchers turned out to be practically worthless. Many citizens didn't even save them.

Khodorkovsky and Nevzlin didn't mind that the vouchers were considered worthless; they realized their true value, and via Menatep began buying them up, often at laughable prices. Almost 10 years later, in 1996, Yeltsin encountered big political problems and couldn't manage more than 10% in the polls. Desperate for money, he turned to Menatep. **The bank reportedly gave him \$200m. for his election campaign -- \$197 more than the law allowed.** After his return to power, Yeltsin thanked them by offering them their choice of shares in publicly owned natural resource companies. It is believed that some 70% control in Russia's biggest public gas, oil and metals companies was distributed to a small group of businessmen at that time.

Yukos, for all its problems with the government, is considered the first major Russian company to issue transparent financial statements. Just prior to its fall, there was a plan to merge it with Sibneft Oil, owned by another Russian Jewish tycoon, **Roman Abramovitch**. This would have made them the fourth-largest oil company in world. "Khodorkovsky was so certain of his position, especially thanks to his close connections to the US Democratic party," says **Eli Krichevsky**, business editor at *Vesty*, Israel's most popular Russia newspaper.

But when the Democrats fell from power he lost his overseas support and his star began to fall. Khodorkovsky has said that Yukos would have been worth

\$50 billion today if not for the persecution of the Russian authorities. Now its capitalization is a mere \$1.5b. according to Nevzlin.

ABRAMOVITCH, WHO **lives safely in England**, is still the Kremlin's man, according to managing editor of Vesty, **Yevgeny Seltz**. But Seltz believes it could also happen to him.

"There are rumors that the Russian State Ombudsman has checked up on Abramovitch and found that he bought England's Chelsea soccer team with the public funds of a Russian province he governs. "Nevzlin hasn't taken the charges sitting down. He says he plans to sue the Russian government for damages.

"As shareholders, we intend to demand compensation for damages in all available international courts," he was quoted as saying by the Moscow business daily, Vedomosti. Nevzlin expects cooperation from all shareholders "because in the current circumstances a consolidated position and joint efforts in safeguarding property are more important than ever."

But that won't be easy. US investors have already filed a class action lawsuit in an American court accusing Yukos's managers of failing to inform them of the risk involved due to the government investigation of their tax break schemes.

Nevzlin has two daughters from two marriages, one 20 and one 26. Both live in London. Besides his business pursuits, Nevzlin was a "lord" in Russia's upper house. He was also very active in Russian education, and was rector of the Russian State University for Humanities in Moscow.

Why Nevzlin chose to come to Israel is a good question. Some would say it's because Israel is one of only two countries that don't have a deportation agreement with Russia -- **the other being England**. But there's more to it than that. Nevzlin has a long connection with the Jewish community. He was former head of Russia's Jewish Federation and a Zionist activist. Since he came to Israel, he has become active in several **philanthropic** pursuits. He established the Nevzlin Center for the Study of Jews of Russia and Eastern Europe at The Hebrew University. He is also a big supporter of the Diaspora Museum, which he thinks can eventually become the main Jewish museum in the world.



Nevzlin has connections to Israel's politicians, including Finance Minister **Binyamin Netanyahu** (*right, behind thug, visiting Auschwitz*) The two have met several times, and reportedly like each other. Netanyahu even once tried doing a business deal with Nevzlin, but nothing

came of it.

Since arriving here, he has invested in several Israeli hi-tech companies on the advice of his financial advisers. He also sees great potential in the local tourist industry. He believes Israel offers the widest variety of attractions of any country and only lacks good marketing. But all that depends on funds and Krichevsky says he doesn't have any.

"Most of Nevzlin's money is stuck in Yukos. He probably came to Israel with only \$10m," says Krichevsky.

Krichevsky believes it is unlikely that any of the Yukos heads will ever see their money again. As they say; easy come, easy go. ■



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