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Lebedev Goads Putin as Trial Shows No Russian Investors Safe (1)
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(Adds TV license award from 72nd paragraph.)

By Henry Meyer

Feb. 5 (Bloomberg) -- "Are you totally out of your mind?"

Russian newspaper tycoon Alexander Lebedev exclaimed as he jumped to his feet. He stared combatively at property developer Sergei Polonsky, who had taunted Lebedev for ridiculing his claim to be a major charity donor.

As tempers flared during the recording of a TV discussion in Moscow, the host appealed for calm, Bloomberg Markets magazine will report in its March issue. Seconds later, the athletic Lebedev punched Polonsky, knocking him off his chair, as seen in a video of the Sept. 16, 2011, incident that became a YouTube sensation.

In September of last year, after a yearlong investigation begun days after then-Prime Minister and now-President Vladimir Putin singled out Lebedev for criticism, prosecutors charged Lebedev with hooliganism over the incident, which was broadcast on state-controlled channel NTV.

He is scheduled to go on trial on Feb. 7, facing a sentence of up to five years in prison. Long a thorn in the Kremlin's side, Lebedev could be sidelined as an opposition voice.

Moreover, a stint in jail could further erode Lebedev's fortune, which he says has shrunk from \$2 billion two years ago to several hundred million dollars because of official pressure on his businesses.

As for Putin, the imprisonment of Lebedev would eliminate yet another in a string of wealthy opponents of his 13-year rule and his determination to extend it.

Investigating Graft

For the past six years, Lebedev, 53, has taunted the Kremlin with his relentless campaign against corruption and the lack of democracy under Putin.

The Moscow-based businessman, a maverick former KGB colleague of Putin's, finances Novaya Gazeta, a Russian newspaper that investigates graft and human rights abuses, and in the U.K. financially supports the Independent and London Evening Standard.

He says his Russian operations, which include potato farming, a bank and aviation holdings, are struggling to avoid losses because of government pressure. On Feb. 4, Russian aviation authorities grounded Lebedev's Red Wings Airlines because of safety violations after five people died in the crash of a Red Wings plane in December at Moscow's Vnukovo airport.

Doing business in Putin's Russia can be a risky proposition.

Transparency International's 2012 Corruption Perceptions Index ranked Russia as the world's most corrupt major economy; among all economies, it

ranked 133 out of 176, alongside Honduras and below Uganda and Nicaragua.

'Parasitic Bureaucracy'

"The overall investment climate is extremely difficult," says Christopher Granville, managing director of Trusted Sources UK Ltd., a London-based emerging-markets research group. "The basic problem is of a parasitic bureaucracy preying on business, which affects domestic business as much as or possibly more than foreign investors."

The Sergei Magnitsky case shows just how dangerous things can get. Magnitsky, a lawyer for London-based Hermitage Capital Management Ltd. who alleged that Russian officials carried out a \$230 million tax fraud, died in jail in November 2009.

After being denied medical care during almost a year in pre-trial detention on fabricated tax evasion charges, he was beaten to death, according to Russia's Presidential Council for the Development of Civil Society and Human Rights.

The only official to go on trial over Magnitsky's death, a prison doctor, was acquitted in December.

Jail Time

Lebedev is being prosecuted under an article of the Russian criminal code used to convict the anti-Putin female punk rock group Pussy Riot in August.

"They can put me in jail, destroy my business," he says.

Lebedev, who owns a private jet and has properties in five countries, says he could have fled Russia before charges were filed, when he was barred from leaving the country, but he chose not to.

"Why should I emigrate?" he says. "I was born here."

The tycoon says he acted in self-defense during the TV studio fracas. Polonsky declined to comment. (Polonsky was detained in Cambodia over unrelated charges after allegedly threatening a boat crew with a knife on New Year's Eve, an offense he denies.)

Polonsky's Moscow-based lawyer, Alexander Dobrovinsky, says Lebedev is a "fantasist" who deserves jail time.

'He's Nuts'

Andrei Kostin, a one-time London-based Soviet diplomat and former Lebedev business associate who now heads state-run VTB Group, Russia's second-biggest bank, dismissed Lebedev's claim he's being persecuted.

"He's nuts," Kostin says. "He punched someone on television."

Putin, 60, saw his popularity slide to almost 40 percent in December from 70 percent in 2008, according to the Moscow-based Public Opinion Foundation.

In March 2012, he secured a new six-year term in balloting that was criticized by international observers such as the Organization for Security and Cooperation in Europe.

After the election, government authorities began prosecuting opposition leaders, including Alexey Navalny, a blogger and anti-corruption activist whose efforts to uncover wrongdoing at state companies have been supported financially by Lebedev.

Gennady Gudkov, a protest leader and ex-lawmaker who was stripped of his parliamentary seat last year and faces possible charges of “illegal business activity,” says Putin’s reaction to criticism recalls the dark days of Stalinist mass trials and repression.

Security Services

“We are heading toward 1937,” Gudkov says. “All that’s left now is for them to shoot the opposition.”

Lebedev doesn’t place all of the blame on Putin, pointing out he has made enemies among members of the security services.

“I would say Putin’s role is 5 percent, and 95 percent is these guys,” Lebedev says. “He is not responsible for giving a command. He wouldn’t stop it. He doesn’t want to interfere. He is watching it.”

Lebedev is smart to avoid direct criticism of Putin, says Masha Lipman of the Carnegie Moscow Center.

“Once you cross this line, then you have nothing to hope for,” she says.

The last billionaire who defied the Kremlin, former Yukos Oil Co. owner Mikhail Khodorkovsky, is still in prison, more than nine years after he was detained aboard his private jet on the tarmac of a Siberian airport.

Inner Circle

Another Putin nemesis is Boris Berezovsky, a businessman and ex-politician in late President Boris Yeltsin’s inner circle who helped Putin succeed Yeltsin in 1999.

These and other tycoons made their fortunes after the collapse of the Soviet Union in 1991 by snapping up state assets at bargain prices.

Whereas Berezovsky fled to London in 2001 in the face of fraud charges he says were politically motivated and Khodorkovsky was behind bars by 2003, other oligarchs such as Roman Abramovich, owner of the English Premier League’s Chelsea Football Club, and nickel mogul Vladimir Potanin have had no conflicts with Putin.

Lebedev has always been something of an outsider. He came from a middle-class Moscow family; his mother was an English teacher, his father a professor of optical engineering.

At the prestigious Moscow State Institute of International Relations, Lebedev says, he felt inferior to classmates who came from high-ranking political, diplomatic and KGB backgrounds.

‘This Rubbish’

A gadfly even then, he slept during compulsory meetings of the Komsomol, or Communist youth league -- “when they gave you all this rubbish nobody believed in” -- and read books by dissidents Alexander Ginzburg and Alexander Solzhenitsyn.

For all his rebelliousness, Lebedev decided to join the foreign intelligence branch of the KGB after graduation in 1982.

He says it was attractive because it would give him the opportunity to travel.

“It was not about torturing people or killing them,” he says.

In 1988, he was dispatched to London under the cover of economic attache. He remained there until 1992, when he quit the service.

Displaying an entrepreneur’s spirit, he embarked on business in rough-and-tumble post-communist Russia.

State Assets

He sold barbed wire to United Nations peacekeepers in Somalia. He earned his first half million dollars trading Argentine, Nigerian and Peruvian government bonds.

He used that money to obtain a state license for National Reserve Bank, which then bought up shares in state assets such as electricity company OAO Inter RAO UES.

In 1998, Russia defaulted on \$40 billion in debt and devalued its currency, wiping out the life savings of millions of people.

“From \$1 billion upside, in two years we went to minus \$200 million,” Lebedev says.

Lebedev says Putin was good for business following the upheavals of the 1990s, presiding over a period of political stability and economic growth that averaged 7 percent annually from 2000 to 2008.

Lebedev restructured his debts and started buying up cheap shares again, including a stake of more than 25 percent in flagship carrier OAO Aeroflot in 2003 for \$150 million and holdings of 1 percent to 2 percent in Russia’s biggest lender, OAO Sberbank, power company OAO Mosenergo and OAO Gazprom, the world’s largest natural gas producer.

Cashing In

Lebedev says he found owning stock unfulfilling.

“These profits, they live their own life,” he says. “I live my own life.”

With Putin running a healthy economy, Lebedev decided to go into business on his own, cashing in most of his shares. He invested the \$2 billion in proceeds in setting up a budget airline and companies engaged in farming, aircraft leasing and homebuilding, while turning his bank into a mortgage lender and retail operation.

In 2003, he entered politics and tried and failed to unseat Moscow Mayor Yury Luzhkov. That same year, he got elected as a lawmaker in Russia’s lower house of parliament, the Duma, for a pro-Putin party, Just Russia.

He says his relations with Putin were sufficiently close that when he went to see him in 2007 on a legislative issue, Putin raised the possibility of backing Lebedev for a senate seat.

Powerful Enemies

Lebedev never saw Putin again -- possibly because a Lebedev-owned tabloid newspaper, Moskovsky Korrespondent, reported erroneously in 2008

that Putin had divorced his wife, Lyudmila, and was planning to marry Olympic gymnast Alina Kabayeva.

Lebedev says he also made powerful enemies when he bailed out OJSC Rossiysky Capital during the 2008 financial crisis:

When he went through the bank's books, he discovered \$200 million in missing funds that he said he suspected had been misappropriated by high-ranking officials of the Federal Security Service, successor to the KGB.

"He got them incredibly angry," Novaya Gazeta editor Dmitry Muratov says. "On the one hand, they are going after him politically because of us, and on the other hand, the most powerful security service in Europe wants to take revenge on him."

Lebedev's involvement with Novaya Gazeta -- and his prominence as a Kremlin critic -- began in 2006.

Anna Politkovskaya

Together, he and former Soviet President Mikhail Gorbachev acquired a 49 percent stake in the struggling newspaper to save it from closure; the employees own 51 percent.

Since Putin came to power, five of the paper's journalists and one of its lawyers have been killed, including Anna Politkovskaya, who was shot in her Moscow apartment building on Putin's birthday in 2006.

In December, a former police colonel was sentenced to 11 years in prison for helping to organize the murder.

One windswept day in November, Lebedev returned from a meeting with investigators to his office in a czarist-era mansion set amid modern tower blocks near the Moscow River.

Stylishly dressed in a black jacket, white shirt and leather ankle boots, he says the \$3 million to \$4 million a year he was spending to keep Novaya Gazeta afloat had become a burden by the middle of last year, so he reduced his support to about \$100,000 a month.

He says he'll sell part of his art collection to raise \$2 million. To boost liquidity, he says he cut his Aeroflot stake from 15 percent to less than 10 percent.

'Siphoned Off'

Lebedev, citing data from the Web-based Tax Justice Network, has said crooked businessmen in collusion with public officials with business interests have "embezzled and siphoned off" at least \$700 billion from Russia during the past 15 years.

"Why do the authorities, President Putin, think that Novaya Gazeta is their enemy?" he says, complaining he's permanently tired and losing weight. "Wouldn't it be better to say it's a friend? By investigating corruption, it helps a lot."

Lebedev enjoys a higher standing in London than in Moscow.

At U.K. events that have attracted the likes of Margaret Thatcher, Hugh Grant and Naomi Campbell, he has raised 12 million pounds (\$19.3 million) in cancer research funds for the Raisa Gorbachev Foundation, named after the ex-leader's late wife. His eldest son, Evgeny, 32, runs his U.K. papers.

TV Station

"They've put their money where their mouth is," former Evening Standard editor Geordie Greig, now editor of the Mail on Sunday, says of the family. "They believe in the press as a crucial pillar of our democratic architecture."

Lebedev and his son, Evgeny, won the right to operate a new London TV station that will rely on content from the family's London Evening Standard and Independent newspapers.

London Live TV beat four other applicants for the right to a 12-year license to broadcast to an estimated 4 million homes, U.K. communications regulator Ofcom said in a statement yesterday.

Evgeny, who was educated mainly in the U.K. and used to date British actress Joely Richardson, lives in a London apartment with a view of Regent's Park where a servant opens the door to visitors.

'Fighting Corruption'

In December, he traveled to the Central African Republic on behalf of the Independent and Unicef to publicize the plight of child soldiers.

"It's a bit like my father," Evgeny says. "He needs his struggle. His campaigning, his fighting corruption, gives him some vitality, some will to live. For me, it's the same."

As his trial approached, Alexander Lebedev steeled himself for prison.

One evening in early December, at his home outside Moscow, he played with his 1-year-old son, Egor, while Egor's 3-year-old brother, Nikita, rode around the house on a toy horse. The boys were born to Lebedev and his second wife, 26-year-old model Elena Perminova.

"I would be happy not to be under attack permanently, not to be facing a jail sentence, definitely because of small kids," Lebedev says, adding that he's "prepared for the worst."

Two weeks earlier, Gorbachev, who turns 82 on March 2, got a rapturous reception at the run-down central Moscow offices of Novaya Gazeta.

The occasion was a private book signing for his latest memoir. The mostly young journalists, many in jeans, patiently lined up to get their copies signed. Gorbachev sat at a table beneath photographs of the six Novaya Gazeta employees who have been killed.

Lebedev was conspicuous by his absence -- tied up meeting with Kremlin officials to discuss his criminal case. If convicted and sent to prison, Lebedev will be missing many such events.

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