

Stephen Fortescue

## Putin in Pikalevo: PR or Watershed?

Pikalevo (pronounced Pikalyovo) has become a keyword for commentators on the current position of the Russian state and society. For example, Nikita Krichevskii has written a report with the portentous title, 'Postpikalevskaia Rossiia: novaia politiko-ekonomicheskaiia real'nost'' [Post-Pikalevo Russia: The New Political and Economic Reality]; Valerii Vyzhutovich refers to the 'Pikalevo syndrome'.<sup>1</sup> It has even become a YouTube phenomenon.<sup>2</sup> How is it that a small, dusty town (population 22,000) 220 kilometres east of St Petersburg has gained such status?

The simple answer is that Putin visited the place on 4 June 2009. He went there after the three main employers in the town ceased operations, an action attributed to the greedy and anti-social behaviour of the private businesspeople involved, including the oligarch Oleg Deripaska. The desperate residents ran an escalating protest campaign, picketing the regional administrative headquarters and eventually blockading a major highway. At this point Putin arrived, gave a dressing down to Deripaska and the other entrepreneurs, and re-established order. Putin's intervention can be characterised either as a crude PR stunt which brought nothing but very short-term relief to the residents of Pikalevo, or a watershed moment in a determined campaign to reshape Russia. This article makes an attempt to decide which.

### From the Kola to Pikalevo

Some understanding is required of the history of the commercial activities that are carried out in Pikalevo. They are unusual in that they are based on the shortage in Russia of an important mineral, an unusual circumstance for a country blessed with virtually all natural resources. The missing mineral is bauxite, from which alumina is usually processed, alumina then being smelted into aluminium. At Pikalevo alumina is processed not from bauxite, but from nepheline, using a

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<sup>1</sup> Nikita Krichevskii, 'Postpikalevskaia Rossiia: novaia politiko-ekonomicheskaiia real'nost'' <http://www.krichevsky.ru/>; Valerii Vyzhutovich, 'Pikalevskii sindrom', *Politcom.ru*, 11 June 2009, <http://www.politcom.ru/8318.html>.

<sup>2</sup> Renata Legierska, *The Moscow Match: friendly game or fatal attraction?*, unpublished thesis, Masters in International Journalism, City University, London, September 2009, 5.

process that was developed and implemented in the Soviet period and remains unique to Russia.

Extensive geological expeditions led by A. E. Fersman on the Kola Peninsula in north-west Russia throughout the 1920s revealed huge apatite deposits in the Khibiny mountains. The apatite had significant admixtures of nepheline (8–20 per cent). The main interest in the apatite was in its use as a mineral fertiliser. It was with this purpose in mind that Fersman prevailed upon the authorities to commit resources to developing the deposit at Khibinogorsk, later Kirovsk, the appropriate government decree being issued on 11 September 1929.<sup>3</sup>

While the main emphasis was on the value of apatite as a mineral fertiliser, from the very beginning it was understood that in order to use it for that purpose, the nepheline would have to be removed.<sup>4</sup> The production of one tonne of apatite concentrate would, on average, leave 0.5 tonne of nepheline tailings. When the first apatite enrichment plant went into operation in 1931, 3,000 tonnes per day of nepheline were thrown into the river and later stored in tailing dumps. At an early stage consideration was therefore given to the possible uses of the nepheline. Despite an aluminium oxide content of up to 24 per cent, the production of alumina was only one – and by no means the most prominent – proposed use. In a 1929 report Fersman referred to four areas of possible application: glass making, ceramics, potash-based fertilisers, and the chemical industry, with alumina being just one of the possibilities in the last category. However, he did write: ‘The potential to obtain alumina for the metallurgy of aluminium gives our problem global significance’.<sup>5</sup> Research into various chemical approaches to achieving that goal was undertaken from 1929. Initially thoughts were directed to acid-based processing, but the alkaline approach suggested by Vlodavets was ultimately considered the most promising. In 1931 decrees were issued to continue research along those lines and to build a plant at Kandalaksha in the southern part

<sup>3</sup> The most concise account of the first few decades of the story of nepheline is V. A. Segal, ‘K istorii kompleksnoi pererabotki nefelina v SSSR’, *Khimiia v shkole*, 2 (1960), 7–12.

<sup>4</sup> V. I. Vlodavets, ‘Nefelino-apatitovye mestorozhdeniia v khibinskikh tundrach’, *Trudy instituta po izucheniiu Severa* (Nauchnoe khimiko-tekhnicheskoe izdatel'stvo N-TU VSNKh SSSR), 46 (1930), 12–13.

<sup>5</sup> A. E. Fersman, ‘Apatitno-nefelinovaia problema khibinskikh tundr’, *Materialy po khimizatsii narodnogo khoziaistva SSSR* (Nauchnoe khimiko-tekhnicheskoe izdatel'stvo N-TU VSNKh SSSR), 5 (1929), 72. Vlodavets, despite becoming a pioneer in the development of the process to obtain alumina from nepheline, barely mentioned it in a 1930 report. ‘Nefelino-apatitovye mestorozhdeniia’, 51.

of the Kola Peninsula. Construction was begun the next year, but quickly halted when it was realised that there were no adequate local supplies of limestone, required in large quantities for the process to work. It was then that the idea was first mooted of converting from bauxite to nepheline the alumina-aluminium plant at Volkhov, near Leningrad, the Soviet Union's first aluminium plant and still under construction at the time.

Research on the nepheline process and the Volkhov conversion was carried on through the 1930s, and on 7 January 1938 *Sovnarkom* decreed that the conversion go ahead. Design work followed, but the project was interrupted by the war. It resumed soon after the war ended, the first attempt to process nepheline being made in 1949. There were major start-up problems, and in 1951 a new engineering approach was tried. The results this time were sufficiently satisfactory that it was decided in 1952 to build a much larger plant, using the same nepheline and same process, at nearby Pikalevo. Construction began in 1956. Again there were major engineering problems, put down to scale-up issues and inadequate preliminary testing.<sup>6</sup> They were resolved during a three-year fit-out period, with the first alumina produced in 1959.<sup>7</sup> In June 1955 it was decided to build an aluminium plant at Achinsk in Siberia, using local (non-apatite based) nepheline ores. Construction of the Achinsk plant and local mine began in the early 1960s, but the Kola process was not directly transferable,<sup>8</sup> and again there were major construction and engineering problems.<sup>9</sup> Indeed it was not until 1970 that production began, and in 1990 the plant still had not reached design capacity.<sup>10</sup>

Clearly the use of nepheline for the production of alumina was not a straightforward process. Major engineering problems were encountered in the construction and operation of all nepheline-fed plants. It was the need to add large quantities of limestone – that ultimately ended up as cement – which helped make the nepheline process such a difficult engineering task. The machinery required

<sup>6</sup> I. N. Kitler, 'Nauchno-tekhnicheskoe soveshchanie po sovershenstvovaniiu tekhnologii proizvodstva glinozema', *Izvestiia vysshikh uchebnykh zavedenii. Tsvetnaia metallurgii*, 3 (1961), 157.

<sup>7</sup> V. A. Tsikin, 'Pikalevskomu glinozemnomu kombinatu – 10 let', *Tsvetnye metally*, 2 (1970), 45.

<sup>8</sup> I. N. Kitler, Iu. A. Lainer, *Nefeliny – kompleksnoe syr'e aluminievoi promyshlennosti* (Moscow: Gosudarstvennoe nauchno-tekhnicheskoe izdatel'stvo literatury po chernoii i tsvetnoi metallurgii, 1962), 5, 98.

<sup>9</sup> L. Bugarev, 'Problemy "krylatogo metalla"', *Pravda*, 16 June 1966, 4.

<sup>10</sup> *Problemy razvitiia glinozemnogo proizvodstva SSSR: Sbornik nauchnykh trudov* (Leningrad: VAMI i Ministerstvo Metallurgii, 1990), 11.

– large mixers, ovens and filters processing thousands of tonnes of material – was heavy and fuel-intensive. The chemical process was tricky, and for it to work properly the material running through the machinery had to have just the right characteristics. The initial problem at Volkhov was the formation of crusts (*nastyli*) in the sinter (*spek*), which led to serious filtration problems, so serious in fact that the ovens and filtration machinery had to be redesigned and rebuilt.<sup>11</sup> Years later what sounded like similar problems bedevilled the Achinsk plant – the sinter did not meet the water content standards and as a result there were filtration problems.<sup>12</sup> The larger the scale the bigger the problems, and yet the plants had to be big to benefit from economies of scale.<sup>13</sup> It did not help that the projects went ahead, it was regularly claimed, without adequate preliminary testing, and with constant underestimation of the problems that would be met at scale-up stage. The problems at Pikalevo derived from the assumption that a much larger version of Volkhov would work.

With these chemical and engineering complexities the production of alumina from nepheline was clearly more expensive than the more straightforward process using bauxite. To the operational costs at Volkhov and Pikalevo had to be added the cost of transporting nepheline the thousand or so kilometres from Kirovsk. The alumina plants were situated at such a distance from the source of the nepheline because they needed to be close to deposits of limestone, an even heavier and bulkier input into the process.

It was generally recognised, even by the supporters of the nepheline process, that it was economically viable only if, firstly, the cost of the nepheline was low, and, secondly, if the value of various by-products was included in the economic calculations. The first was achieved if it were claimed that nepheline was essentially free, since it was a by-product of the production of mineral fertiliser and would simply be thrown out if it were not used to make alumina. This argument was not appreciated by the operator of the Kirovsk mine, the Ministry of Chemical Industry. (The alumina plants were subordinate to the Ministry of Non-ferrous

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<sup>11</sup> Kitler and Lainer, *Nefeliny*, 88–90.

<sup>12</sup> B. I. Arliuk, N. G. Skribner, ‘K uluchsheniiu kachestva nefelinovykh spekov’, *Tsvetnye metally*, 8 (1973), 25.

<sup>13</sup> R. D. Malinova, ‘O pokazateliakh effektivnosti i ispol'zovaniia razlichnykh vidov glinozemsoderzhashchego syr'ia v aluminievoi promyshlennosti SSSR’, *Izvestiia vysshikh uchebnykh zavedenii. Tsvetnaia metallurgii*, 1 (1961), 167.

Metallurgy.<sup>14</sup>) It presumably took some administrative pressure to persuade the Ministry of Chemical Industry to make nepheline available at a price low enough to make its processing into alumina economically viable.

However a cheap input was not enough. With an inconsistency that presumably did not improve the mood of the Ministry of Chemical Industry, the supporters of nepheline declared the nepheline input to be cheap because it was a by-product, but then assigned a high value to the by-products of their own process. In the case of the Pikalevo plant, the main by-products were cement, potash and soda products (used in the fertiliser industry). The major by-product was cement, produced in very large quantities because of the amount of limestone that had to be added to the nepheline to get the chemical process to work. The production of one tonne of alumina could be accompanied by as much as 8 to 10 tonnes of cement.<sup>15</sup>

There were always those who doubted the validity of the calculations which showed the use of nepheline to produce alumina to be economically viable. In the second half of the 1960s the doubters appeared to gain the upper hand, something which I argue could be put down to the change in political leadership in October 1964 and, in particular, to the subsequent abolition of the *sovnarkhozy* and the reinstatement of the sectoral ministries, including the Ministry of Non-ferrous Metallurgy. Nepheline (and other bauxite substitutes) had been championed by regional political and scientific elites. Their major influence on policy making was curtailed by the abolition of the *sovnarkhozy*, and the new ministry had no interest in the inefficient complexities of nepheline. It put its faith in bauxite, to the extent that when bauxite continued to confound the efforts of geologists to find it in adequate quantities in the Soviet Union the ministry turned to large-scale imports, in particular from a mine built by Soviet engineers in Guinea.

The effect of this on Pikalevo was that a major expansion of the plant, which had been foreseen from the time it was first built and had been included in the Ministry of Non-ferrous Metallurgy Five-Year Plan for 1971–75, was quietly dropped from the yearly plan in 1973.<sup>16</sup> The plant, nevertheless, continued to operate. It struggled through the early post-Soviet period and eventually became

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<sup>14</sup> L. Bugarev, R. Pushkar', 'Ob"ediniv usiliia', *Sotsialisticheskaia industriia*, 11 April 1973, 2.

<sup>15</sup> Elena Ovchinnikova, 'Sor iz nefelinovoi izby', *Ekspert Severo-Zapad*, 10 July 2000, <http://www.expert.ru/printissues/northwest/2000/11/11no-apatity/>.

<sup>16</sup> Bugarev, Pushkar', 'Ob"ediniv usiliia'.

part of Viktor Vekselberg's SUAL in 2004.<sup>17</sup> The way SUAL obtained the plant is an important part of the subsequent story. The St Petersburg conglomerate SevZapProm sold its aluminium and alumina interests to SUAL, alumina production at Pikalevo among them, but it retained Pikalevo's soda products plant, giving it the name Metakhim. The difficulties involved in the split in the ownership of the Pikalevo production process were compounded by the sale of the cement facilities to Filaret Gal'chev's Evrotsement, with that plant being renamed Pikalevo Tsement.

Another important event took place during SevZapProm's ownership. In 2000 the owner of the Kirovsk mine (its corporate title being Apatit), which happened to be Mikhail Khodorkovsky's Menatep bank, decided to raise the price of nepheline by 250 per cent, complaining that the traditional price was loss-making for it, particularly since demand had never reached the levels at which it could enjoy economies of scale, because the expansion of the Pikalevo alumina plant had never gone ahead. Pikalevo's owners referred the price increase to the Russian competition authorities, but Menatep won its case.<sup>18</sup> In 2004 Menatep sold Apatit to the private mineral fertiliser producer Fosagro, which maintained the new pricing policy. In fact when the 2000 contract expired in 2005, Fosagro's aggressive pricing policy drove the residents of Pikalevo to rehearse their actions of four years later, although on this occasion they blocked the railway. The following year a new contract was signed.<sup>19</sup>

As aluminium prices rose from the beginning of the decade, SUAL was prepared to accept the increased cost of nepheline. In 2007 SUAL was merged into Oleg Deripaska's Rusal, which became as a result the sole producer of aluminium in Russia and the biggest producer in the world. Rusal and SUAL up until then had had quite different input strategies. SUAL had relied on domestic supplies of inputs – investing in the expansion of its Urals bauxite mines, building a greenfield bauxite mine in the Komi Republic, and maintaining nepheline-based production in the north-west. Rusal had the nepheline-based operations at Achinsk feeding the neighbouring Krasnoyarsk smelter, but its other smelters used alumina derived

<sup>17</sup> On the history of SUAL, see Stephen Fortescue, 'The Russian aluminum industry in transition', *Eurasian Geography and Economics*, 47 (2006), 78–80.

<sup>18</sup> Ovchinnikova, 'Sor iz nefelinovoi izby'.

<sup>19</sup> Tat'iana Stanovaia, 'Vladimir Putin razreshil "pikalevskii krizis"?', *Politcom.ru*, 8 June 2009, <http://www.politcom.ru/8293.html>.

from bauxite, much of it imported. The company had bought up the Soviet Union's traditional sources of imports, in particular in Guinea, and had fought hard to gain control of the Nikolaev Alumina Plant in Ukraine which processed the Guinean bauxite.<sup>20</sup>

Despite its import strategy, following the merger with SUAL Rusal initially committed itself to maintaining SUAL's domestic input assets. However within a few years that commitment had disappeared. Presumably not coincidentally, at roughly the same time in the spring of 2008 the company announced that it was freezing construction of an alumina plant near its new bauxite mine in the Komi Republic,<sup>21</sup> and that it would refit its Pikalevo alumina plant for the production purely of cement, that is, it would cease taking deliveries of nepheline and would use the limestone that had always gone into the alumina production process to produce cement directly.<sup>22</sup> Because of the planned change in profile the plant was transferred from Deripaska's aluminium company Rusal to his non-aluminium conglomerate Bazel. The plant was now known as BazelTsementPikalevo, BTsP.

The decision to reprofile the plant might or might not have been welcomed by the supplier of the nepheline, Apatit, given its longstanding mixed feelings about providing nepheline for alumina production. It was definitely not welcomed by Evrotsement and Metakhim. It was said that one of the reasons that Bazel decided on this course of action was to break the monopoly Evrotsement had in the supply of cement to Bazel's construction projects.<sup>23</sup> But Bazel was intending not just to set up as a competitor to the Pikalevo cement operation, but to deny it and the soda products plant their essential inputs. Through the middle of 2008 BTsP gradually cut its deliveries to Evrotsement of the slurry from which the cement was made, and by May 2009 the cement plant had exhausted its stockpile and closed down; Metakhim had already ceased operation in February.<sup>24</sup> BTsP was at the same

<sup>20</sup> For details on these matters, see Stephen Fortescue, 'Location Decisions in the Russian Aluminium Industry', *Australian Slavonic and East European Studies*, 22 (2008), 23–44.

<sup>21</sup> That decision was ostensibly driven by failure to agree an acceptable price for gas with Gazprom. Fortescue, 'Location Decisions', 35. Fitful negotiations with Gazprom have continued, but one doubts that the plant will be built in the foreseeable future.

<sup>22</sup> 'OK "Rusal" prodaet "BazelTsementu" Pikalevskii glinozemnyi zavod', *Informatsionno-analiticheskii tsentr 'Mineral'*, 2 May 2008, <http://www.mineral.ru/News/31942.html>.

<sup>23</sup> Vasilii Lebedev, 'O posledstviiax konkurentnoi bor'by', *Ekspert*, 26 January 2009, 34–35.

<sup>24</sup> 'Pikalevskii vzryv', *Ekspert Online*, 6 March 2009, <http://www.expert.ru/news/2009/03/06/pikalevo/>.

time winding down its orders for nepheline. In February 2009 Apatit refused to continue delivering, claiming that to keep its nepheline plant going for orders that had declined in recent times by a factor of 14 was costing it too much money.<sup>25</sup> With that BTsP closed its alumina operations. The three plants employed about 4,500 people, and most of them found themselves dismissed or put on unpaid leave.<sup>26</sup> BTsP had no revenues and so was unable to maintain payments to the local power company, which then shut down the furnaces that provided hot water not just to its plant but to the entire town.<sup>27</sup>

In circumstances where the central authorities were making it very clear that they would hold regional governors accountable for the smooth running of affairs in their realm, the governor of Leningrad region, Valerii Serdiukov, swung into action. A working group ‘on the development and implementation of measures for the stabilisation of operations of Pikalevo enterprises’ was set up, working together with the Commission for Averting Possible Crisis Phenomena in the Leningrad Region’s Economic and Financial Spheres. The commission and working group met in Pikalevo in early February 2009, a meeting which took place with 1,000 demonstrators outside. The working group proposed that BTsP go to the Federal Anti-monopoly Agency (FAS) to get a fair price for nepheline from Apatit and that the three plants in Pikalevo be reamalgamated. FAS responded not by pursuing Apatit on behalf of BTsP, but by requiring the latter to renew deliveries to the cement and soda plants or have its assets sold. This might have assisted in meeting the working group’s second proposal, in that SevZap-Prom, the owner of Metakhim and earlier owner of the whole complex, expressed some interest in taking back the other two plants.<sup>28</sup> The suggestion brought no reaction from the other owners, and Bazel appealed the FAS finding.<sup>29</sup> At an emergency meeting of the regional parliament in early March 2009 Serdiukov gave the owners two weeks to sort out their differences, after which he would call

<sup>25</sup> ‘Khoziaeva zavoda poluchili podzavod’, *Kommersant*, 5 June 2009. Articles cited here from the newspapers *Vedomosti* and *Kommersant* are taken from their web editions, and can be accessed through Arkhiv at <http://www.vedomosti.ru/> and <http://www.kommersant.ru/>.

<sup>26</sup> Iuliia Fedorinova, ‘Ekonomiia v \$1,3 mlrd’, *Vedomosti*, 6 February 2009; Anatolii Temkin, Natal’ia Kostenko, ‘Pikalevo v Kremle’, *Vedomosti*, 12 March 2009.

<sup>27</sup> Elena Mazneva, Iuliia Fedorinova, ‘Snial s prodazhi’, *Vedomosti*, 18 May 2009.

<sup>28</sup> ‘Pikalevskii vzryv’.

<sup>29</sup> Margarita Fedorova, Ol’ga Sichkar’, Khalil’ Aminov, Ol’ga Pleshanova, ‘Tsement skhvatyvaetsia v gossobstvennost’’, *Kommersant*, 4 June 2006.

in the prosecutors.<sup>30</sup> The threat brought no reaction and soon after, on 12 March 2009, Serdiukov was in Moscow to discuss the situation with Medvedev. He reputedly proposed to Medvedev that the state give its 26.7 per cent shareholding in Apatit to the regional government (presumably his own, despite the fact that Kirovsk is in Murmansk region) or to Bazel, in order to allow BTsP to get some leverage over the price of nepheline.<sup>31</sup> Medvedev is quoted as having said:

If the existing owners are not prepared to save (*sokhraniat'*) this plant, they need to consider perhaps that some new owners might appear.<sup>32</sup>

Again there was no reaction to the threat, and it appeared that it took the long-threatened blockade of the Novaia Ladoga to Vologda highway on 2 June, a blockade which reportedly produced a 400-kilometre traffic jam,<sup>33</sup> to attract the attention of the authorities. On 4 June Putin arrived.

### **The Putin intervention**

Even by his abrasive standards Putin put on a particularly bad-tempered display. He arrived four hours late. He rejected the offer from the director of BTsP to show him around, with the words: ‘What sort of garbage dump have you created around here?’ He accused the owners of having ‘dirtied themselves in arguments and fights, rather than carry out a comprehensive modernisation of production’ and threatened, ‘I am not talking about legal forms here – if you can’t agree between yourselves, then it will be done for you.’<sup>34</sup> Most famously, noticing that Deripaska’s signature was not on the agreement, he forced him to sign on the spot, even giving him his pen to do so but then demonstratively demanding it back, implying that the oligarch could not even be trusted not to steal the prime minister’s pen.<sup>35</sup> It was clearly a major PR exercise, designed to show that Putin

<sup>30</sup> ‘Pikalevskii vzryv’.

<sup>31</sup> Anatolii Temkin, Aleksandra Terent’eva, ‘Pomoch’ Pikalevo’, *Vedomosti*, 16 March 2009.

<sup>32</sup> Tat’iana Stanovaia, ‘Deripaska na grani’, *Politcom.ru*, 13 March 2009, <http://www.politcom.ru/7778.html>.

<sup>33</sup> Margarita Fedorova, Ol’ga Sichkar’, Khalil’ Aminov, Ol’ga Pleshanova, ‘Tsement skhvatyvaetsia v gossobstvennost’’, *Kommersant*, 4 June 2006.

<sup>34</sup> Svetlana Samoiloova, ‘“Razulil”, priekhal, pobedil’, *Politcom.ru*, 5 June 2009, <http://www.politcom.ru/8284.html>.

<sup>35</sup> Legierska, *Moscow Match*, 5–6.

was prepared to defend the rights of the ordinary people against the rapacious oligarchs, with Deripaska being particularly singled out for humiliation.

The situation was not quite what it seemed. Firstly, Deripaska complained later that the whole affair had been edited for television in a way which distorted what actually happened. He also claimed that the whole matter could have been – indeed already had been – resolved without Putin, and that someone – he claimed not to know who – had used the situation for their own ends.<sup>36</sup> Who that someone might be remains a mystery since, despite the awkwardness of his television appearance, as we shall see, Deripaska emerged relatively unscathed.

Secondly, as Deripaska suggested, much negotiation had gone on before Putin arrived. In fact Putin recognised this, stating at the meeting that a solution to the problem had been arrived at in Moscow on 1 June (the day before the Pikalevo residents blockaded the highway), and that he had come to Pikalevo solely in order to force the owners of the plants to see with their own eyes what they had created.<sup>37</sup> The terms of the deal that had been worked out in Moscow and then so theatrically signed in Pikalevo included a commitment from all parties to restore deliveries and production; an agreement on prices that would apply until 1 September; an audit by an international auditor to recommend longer term prices that would even out the rates of return of the various plants; some short-term assistance to pay back wages and the unpaid power bill; and a government undertaking to consider providing credit guarantees to BTsP if it were to proceed with modernisation plans.<sup>38</sup>

Thirdly, the main victim of the agreement was not, in fact, Deripaska. One doubts that he was pleased at having to re-commit to alumina production at Pikalevo, but the outcome was what one commentator described (after the event) as the one pushed by Deripaska – support from state banks and pressure on Fosagro.<sup>39</sup> The least pleased participant in the proceedings was Maksim Volkov, the general director of Fosagro. He complained bitterly that the price that he had been pressured to agree to (R750 a tonne, a drop from R2000) was below the cost of production and was not sustainable. Indeed if the price were to be maintained

<sup>36</sup> ‘“Vo vremia shtorma zagorat’ ne khochetsia”’, *Vedomosti*, 7 September 2009.

<sup>37</sup> ‘Khoziaeva zavoda poluchili podzavod’, *Kommersant*, 5 June 2009.

<sup>38</sup> Svetlana Samoilova, ‘Priedet Putin i rassudit’, *Politcom.ru*, 3 June 2009, <http://www.politcom.ru/8268.html>.

<sup>39</sup> Stanovaia, ‘Vladimir Putin razreshil’.

for more than three months it would threaten the very existence of Fosagro.<sup>40</sup> He stated that he had agreed to the deal only because he had been instructed to do so by the Federal Property Agency, which held a Golden Share in Apatit (as well as a much disputed 26.7 per cent holding that formed the original grounds for the arrest of Khodorkovsky in 2003 and which had only recently been handed back to the state after a long series of court cases).<sup>41</sup>

Fourthly, the future for the residents of Pikalevo might not be as sunny as Putin's intervention suggested. The agreement was only a temporary one, until 1 September, and it was one which Volkov had declared at the time it was signed to be unsustainable. To be fair to Putin, he did not just make his appearance and then forget about the matter. Since then there have been regular meetings dealing with Pikalevo, sponsored by the Ministry of Industry and Trade and chaired by deputy minister Denis Manturov. Certainly once the term of the June agreement neared its end meetings of what was known as the Operational Headquarters for the Restoration of the Pikalevo Production Complex took place at least once a week. At one such meeting on 21 August 2009 Manturov, after reporting that since June the plants had been working normally, requested that a list of options for the future be drawn up. There was support for the idea of a merger or joint venture of all plants, although it was recognised that Apatit was a problem. Since it was much larger than the other plants, they feared that it would dominate any new structure (a recognition that the real problem lay in the price of nepheline).<sup>42</sup> The following week the ministry reported that agreement had been reached on arrangements until the end of the year. Apatit would sell nepheline for R850 (without transport costs included), BTsP would provide slurry to Evrotsement for R520 (the previous price had been R670) and carbonate solution to Metakhim for R1050 (the previous price had been R850). These prices had been proposed by FAS after an audit by KPMG. They would deliver levels of profitability to Evrotsement and Metakhim of 10 per cent, BTsP of 0 per cent, and Apatit's return would be negative. Again we see how hard it is to get the sums of nepheline-based alumina production to work.<sup>43</sup>

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<sup>40</sup> 'Khoziaeva zavoda poluchili podzavod', *Kommersant*, 5 June 2009.

<sup>41</sup> Daniil Shabashov, 'Gosudarstvo vernulo "Apatit"', *RBK*, 16 February 2009, [http://9aas.arbitr.ru/about/press\\_-\\_sluzhba/2543.html](http://9aas.arbitr.ru/about/press_-_sluzhba/2543.html).

<sup>42</sup> 'Vektor', *Vedomosti*, 24 August 2009.

<sup>43</sup> Anatolii Temkin, Aleksandra Terent'eva, 'Pikalevskaia tsena', *Vedomosti*, 31 August 2009.

It turned out that these prices were in fact just the basis for continuing negotiations. Metakhim pushed for a price of R900; Evrotsement was happy with the price, but was not yet willing to set the amount of cement it would buy, since it was opening a new limestone quarry nearby; and Fosagro refused to sign off since the price set was below its cost of production.<sup>44</sup> Volkov claimed that since the Putin intervention Apatit had lost R106 million on its nepheline operations. He suggested that Fosagro would agree to the proposed price of R850, but only for two months and with BTsP paying a penalty of R350 for each tonne not ordered above the agreed amount. He claimed that with a cost of production of R1349, the deal that Fosagro was prepared to agree to would cost it R50 million over two months. He also flagged that Fosagro would be looking for compensation for past losses.<sup>45</sup> The Ministry of Trade and Industry accepted Fosagro's proposal, although it countered with the suggestion that following a further review of costs further price adjustments could be made retrospective to 1 September. At a meeting on 3 September it was revealed that while new contracts had still not been signed, deliveries between the plants were continuing, with it being agreed that accounts would be netted out once prices were agreed.<sup>46</sup>

Bazel had been suggesting that if the price negotiations could be satisfactorily concluded it would think again about committing itself to a modernisation program for the BTsP plant that would make it commercially viable, a modernisation programme for which the state would provide R1.5 billion of credit guarantees. However in September 2009 Deripaska was still non-committal regarding the modernisation.<sup>47</sup> Rusal's current difficulties in Guinea, where a new military government is not only demanding the renegotiation of Rusal's presence in the country but is also having great difficulty maintaining civil order,<sup>48</sup> might encourage it to think that an improved domestic input supply would be no bad thing. It might also be calculating that, given that Evrotsement is busy looking for alternative sources of limestone to free itself of dependence on BTsP, it could find

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<sup>44</sup> Anatolii Temkin, Aleksandra Terent'eva, 'Za kontraktom k Putinu', *Vedomosti*, 1 September 2009.

<sup>45</sup> Aleksandra Terent'eva, Anatolii Temkin, 'Ugroza Pikalevu', *Vedomosti*, 2 September 2009.

<sup>46</sup> Anatolii Temkin, Aleksandra Terent'eva, 'Otdai million', *Vedomosti*, 4 September 2009.

<sup>47</sup> '“Vo vremia shtorma zagorai' ne khochetsia”', *Vedomosti*, 7 September 2009.

<sup>48</sup> Aleksandr Gabuev, Roman Malinin, 'Gvineiskie voennye otstavili peregovory', *Kommersant*, 8 October 2009. For commercial difficulties in other parts of the world, see Roman Malinin, '“Rusal” goniati iz Indonezii', *Kommersant*, 8 October 2009.

itself with the cement that it wants to free itself from dependence on Evrotsement in its construction business and have some alumina as well. Nevertheless it is hard to imagine that Deripaska, given his major financial problems, would want or be able to invest significantly in nepheline-based alumina production.

The issues are all very similar to those that were evident in the Soviet period. How low does the price of nepheline have to be to make nepheline-based alumina production commercially viable? How valuable do the by-products, particularly the cement, have to be? In the Soviet period it was very difficult to get the sums to add up right. One suspects that it will continue to be so in the post-Soviet period.

The broader implications of the Pikalevo episode are analysed under three headings: the relationship of the state with the Russian people; its relationship with big business; and Russia's economic development strategy.

### **State and society**

It is impossible to avoid the conclusion that Putin's Pikalevo intervention was a major PR effort. Putin barely denies it, declaring at least twice while there that he had only come in order to force those responsible to see – and presumably be seen seeing – what they had wrought. The PR message was that Putin, as ever, was tough and prepared to take on the business elite in order to bring order to their affairs and to defend the security and livelihood of the common citizen.

Concern was immediately expressed by a number of commentators that there might be a domino effect, with every struggling town in Russia – of which there are plenty – demanding that Putin sort out their problems.<sup>49</sup> However Putin showed a clear determination not to allow the episode to be taken as an invitation to other disgruntled communities to seek the attention of the authorities through direct action. He spoke of the Pikalevo protestors in language almost as strong as that he used against the plant owners, talking of their blocking of the highway as a provocation, a 'machination' (*sgovor*), 'perhaps done for money'.<sup>50</sup> Soon after he visited Barnaul in the Altai, and there were high expectations, including among the workforce, that he would visit the Altairak plant, a struggling producer of agricultural machinery. However, on the eve of Putin's visit the region's governor

<sup>49</sup> Igor' Bunin, 'Pikalevo: sistemnye problemy', *Politcom.ru*, 4 June 2009, <http://www.politcom.ru/8280.html>; Vyzhutovich, 'Pikalevskii sindrom'.

<sup>50</sup> Samoilovala, '“Razrulil”'.

ensured that a solution to the most pressing problem, wage arrears, was found, including by the regional administration pressuring local farms to buy machinery. Putin pointedly stayed away from the plant. The deputy governor did note that after Pikalevo it was easier to deal with plant owners and that his conversation with them ‘was at a normal and correct level of tension’.<sup>51</sup>

Fears that Pikalevo might have a domino effect were probably always exaggerated, since the polls showed a relatively high level of ignorance of events there among the general population, particularly those not living in the immediate region. In one poll 58 per cent of respondents had never heard of Pikalevo. Of these 76 per cent had limited education and 60 per cent were United Russia supporters (the categories among which one might expect the most positive reaction to Putin’s ‘tough’-style PR). Of the 41 per cent who had heard of it, only 16 per cent claimed to be well-informed. Of those who had heard of it, 41 per cent were residents of the northwest. Although 75 per cent considered the actions of the Pikalevo residents to be justified, in another poll taken at roughly the same time only 19 per cent of respondents were willing personally to take part in protest action.<sup>52</sup> Polls show a continuing high level of support for Putin, support which seems to be unaffected by economic crisis or any action or inaction on his part. Popular opprobrium is reserved for the government, the fact that Putin stands at its head apparently being a matter of no consequence.

There are those who see the Pikalevo episode as evidence of the state’s remoteness from the population and the weakness of the institutions that exist to narrow the gap between the rulers and the ruled.<sup>53</sup> Problems can only be solved – or appear to be solved – in time-honoured fashion, by the personal intervention of the tsar, usually with ‘terrible’ (*grozny*) mien.

It could certainly be argued that the legitimacy which derives from populist appeals of a leader who allows himself to be distanced from his own government and who relies on crude attacks on business leaders, among many others, to support his image, is necessarily a thin one, not one that would form the foundation for a sturdy democracy and market economy. That said, it could also be argued

<sup>51</sup> Andrei Kolesnikov, ‘Krizis uklonilsia ot vstrechi s prim’erom’, *Kommersant*, 20 June 2009.

<sup>52</sup> Natal’ia Kostenko, ‘Protsent Putina’, *Vedomosti*, 30 June 2009.

<sup>53</sup> Igor’ Bunin, ‘Pikalevo: sistemnye problemy’. See also Stanovaia, ‘Vladimir Putin razreshil’.

that Pikalevo is another example of Putin's capacity to press the right buttons with the population, and to do so in a way that hardly suggests insensitive remoteness.

### **State–business relations**

One of the buttons Putin pressed in Pikalevo – and not for the first time – was the anti-business and in particular the anti-oligarch button. He came to power in 2000 with relatively mild talk of equidistance and harsher action against Gusinskii and Berezovskii. Most dramatically he had Mikhail Khodorkovsky arrested in October 2003. Some believed that his sudden and somewhat bizarre attacks on Igor Ziuzin and his coal and steel company Mechel in July 2008 were the beginning of a new Yukos affair, although it did not turn out that way.<sup>54</sup> In the eyes of many commentators these episodes were merely the highlights of what has been a consistent process of stripping away both the political and economic power of the oligarchs and handing it back to the state and those state officials and managers of state corporations who are Putin's cronies. Pikalevo, and the economic crisis during which it took place, are simply a new phase in that long process. From this perspective, the chief target of the Pikalevo affair in the public version of events, Oleg Deripaska, has been the most prominent but by no means only oligarch whose sudden financial vulnerability has been used by the state to increase the extent of its fiscal control.

There is no denying the decline in political power of the oligarchs under Putin or the increasing economic role of the state, but this should not be exaggerated. Equidistance was accompanied by the so-called *shashlyk* agreement, with its guarantees of oligarch property rights;<sup>55</sup> the Yukos affair was not the opening shot in a campaign of nationalisations of oligarch assets; and after Yukos the oligarchs continued to be involved in the policy process, including in matters as sensitive as taxation.<sup>56</sup> The crisis has not been used to dispossess oligarchs, despite the

<sup>54</sup> Twice Putin very explicitly and harshly accused Mechel of tax avoidance, a serious charge only a few years after the conviction of Khodorkovsky, but government officials in press briefings and government agencies in formal proceedings characterised Mechel's misdeeds as nothing more than relatively minor anti-competitive behaviour. Anastasiia Denisova, 'Delo v nalogakh', *Vedomosti*, 29 July 2008.

<sup>55</sup> William Tompson, 'Putin and the "Oligarchs": A Two-sided Commitment Problem', in Alex Pravda (ed.), *Leading Russia: Putin in Perspective: Essays in Honour of Archie Brown* (Oxford: Oxford University Press, 2005), 179–202.

<sup>56</sup> Stephen Fortescue, 'Business-state negotiations and the reform of tax procedures in post-Yukos Russia', *Law in Context*, 24 (2006), 36–59.

available opportunities. The emergency loans offered to Russian corporations, unable to meet debt repayments and margin calls in the last couple of months of 2008 and so at risk of losing the substantial (but minority) shareholdings in their companies held by foreign banks, were taken up only by a few businesses (including Deripaska's), and the programme was closed with only \$11 billion of the \$50 billion set aside spent.<sup>57</sup> Most firms, again including Deripaska's, have been able to restructure loans issued by both Russian state structures and foreign banks.

Russia is no longer, if it ever was, an oligarchy in the sense of a country run by a small group of businessmen known as oligarchs.<sup>58</sup> But it is still just as much if not more an example of (private) oligarch capitalism as it is of state capitalism. Pikalevo fits well into this characterisation. Putin has reminded business who is boss, but, despite talk of nationalisation in some quarters,<sup>59</sup> all the private owners remain in control of their assets, albeit with the expectation that they share most of the economic burden among themselves. In that sense Pikalevo represents 'business as usual' rather than a watershed.

### **Economic development strategy**

If Pikalevo does not represent the dispossession of the oligarchs, what does it tell us about Russia's economic development strategy? Pikalevo is a classic example of the Soviet economic legacy. It is unusual only in being part of the commodity export sector and so having among its owners one of the big resource-based oligarchs, unlike the more anonymous owners of such industrial-engineering survivals from the Soviet past as Altairak. That aside, it is a typical case of a town or city dominated by a single form of economic activity of dubious effectiveness and profitability.

The Pikalevo case has prompted renewed attention to the phenomenon of the *monogorod* (one-company town). Following his visit to Pikalevo Putin directed the Ministry of Regions to develop a policy document on support for such towns. Defined as those in which either 25 per cent of the population is employed in a

<sup>57</sup> Evgeniia Pis'mennaia, 'Zabud'te o pomoshchi', *Vedomosti*, 2 March 2009.

<sup>58</sup> Stephen Fortescue, 'Pravit li Rossiei oligarkhiia?' *Polis*, 5 (2002), 64–73.

<sup>59</sup> Some United Russia deputies introduced a bill to the Duma to nationalise the three Pikalevo plants, but there were never any prospects of its passage. Margarita Fedorova, Ol'ga Sichkar', Khalil' Aminov, Ol'ga Pleshanova, 'Tsement skhvatyvaetsia v gossobstvennost'', *Kommersant*, 4 June 2006.

single production ‘complex’ (set of linked enterprises), or 50 per cent of output comes from that complex, such places, of which there are 400 in Russia, employ 24 per cent of the urban population and before the crisis produced 40 per cent of GDP. This is according to the Ministry of Region’s first discussion paper, in which it also states that 250–280 such towns require monitoring with a view to assistance, with 17 already in crisis. The document recommends that they be divided into the ‘depressive’ and the ‘progressive’, with closure and resettlement to be considered as the best policy option for the former. For 2010 R20 billion has been allocated to provide assistance; it is foreseen that a full program of assistance could involved the expenditure of R100 billion.<sup>60</sup>

Despite this talk, emanating from a second-rank bureaucratic agency, the likes of Pikalevo have been barely part of Russia’s major economic strategy debates. While Pikalevo and on a larger scale such places as Togliatti and its giant AvtoVAZ car plant intrude on it, the debate is not about the Soviet legacy. The main debate has been between what are known as the ‘party of stability’ and the ‘party of growth’. The party of stability emphasises the importance of fiscal discipline and the struggle against inflation. A securely low inflation rate will allow long-term low interest rates, which will enable the broad-spectrum investment which the economy needs to grow. The champion of this view is deputy prime minister and Minister of Finance Aleksei Kudrin. The party of growth believes in a more interventionist growth strategy, in which the state – perhaps in partnership with the private sector – funds and undertakes infrastructural and hi-tech development projects. In recent times the bureaucratic champion of the party of growth has been the Ministry of Economic Development, currently headed by minister Elvira Nabiullina. The party of growth is not the same thing as, or even an ally of, the group which puts its faith in state support for Soviet-era industrial pursuits, whom we will call the ‘industrialists’. They have little presence in the policy debate, although they are far from absent when it comes to budget allocation time.

There has been much discussion of where the top political leaders – Putin and Medvedev – line up in the debate. Putin is seen as being close to the industrialists, many of whom have long-standing KGB links with him, the ubiquitous Sergei Chemezov being the best example. However he has been known to engage in

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<sup>60</sup> Evgeniia Pis’mennaia, Iuliia Fedorinova, Aleksandra Terent’eva, ‘Pomogut ne vsem’, *Vedomosti*, 29 September 2009.

‘growth’ rhetoric, and he also gives consistent policy support to Kudrin. It is highly unlikely that he would put all his eggs in the industrialist basket. Medvedev is seen as a natural ally of the party of growth, with his enthusiast’s embrace of high technology. Yet he also follows Putin’s lead in supporting Kudrin. It is believed that he has little sympathy for the industrialists with their KGB backgrounds.<sup>61</sup>

It remains to be seen whether the party of stability versus the party of growth debate retains its pre-eminence in crisis and post-crisis circumstances. The debate is very much about whether and how to spend the state’s money. As a result of the crisis much of that money has been spent, to some extent on oligarch assets but to a larger extent on the likes of Pikalevo. Not that Putin’s intervention in Pikalevo could be characterised as a government bailout. Some funding was provided to pay off immediate debts, although it is unclear whether it was provided by the state-owned Vneshtorgbank or the regional administration.<sup>62</sup> Although no details are available, it appears probable that rail subsidies have been provided for the transport of nepheline from Kirovsk to Pikalevo. The head of Russian Railways Vladimir Yakunin was part of the delegation that went to Pikalevo, and the agreement that resolved the issue has been described as a three-sided one between BTsP, Fosagro and Russian Railways.<sup>63</sup> It appears that BTsP has been promised credit guarantees if it undertakes a modernisation program. That aside, it has been made clear that Pikalevo is a problem that is to be sorted out and paid for primarily by the private businesses involved.

Throughout the crisis the government has tried to give the same message to the representatives of the ‘real’ economy as a whole, but it has nevertheless been unable to avoid substantial financial commitments. Depending on the outcome of the economic crisis, the Soviet legacy economy could find itself a part of the policy debate again in a way that it has not been since the early 1990s, when the industrialists exercised considerable influence in the first post-Soviet parliament.<sup>64</sup>

<sup>61</sup> Tat’iana Stanovaia, ‘Novyi etap vnutripravitel’svennoi bor’by za rezervy’, *Politcom.ru*, 30 March 2009, <http://www.politcom.ru/7877.html>.

<sup>62</sup> Samoiloa, ‘Priedet Putin’; Stanovaia, ‘Vladimir Putin razreshil’.

<sup>63</sup> Samoiloa, ‘“Razrulil”’.

<sup>64</sup> Philip Hanson and Elizabeth Teague, ‘The industrialists and Russian economic reform’, *RFE/RL Research Report*, 8 May 1992, 1–7.

## Conclusion

It is such thinking that inspires the likes of Evgenii Gontmakher, the author of the famous article ‘Scenario: Novochoerkassk-2009’. The Soviet industrial legacy – long regarded as something which, if it were ignored, would go away – is coming back to haunt the Russian state.<sup>65</sup> Unless it is given such a large share of the country’s resource rent that there will be nothing left for the party of growth’s development plans, it will be a source of strife and disorder. One feels that it will not come to that, not least because the population does not want it to. While Pikalevo undoubtedly had about it an element of ensuring that Gontmakher’s vision did not come to pass, it did so largely by pursuing a strategy of ‘business as usual’. Business still possesses and runs its assets, with the social and financial responsibilities that this involves. The population will be protected where appropriate by the state as personified by the leader, but it needs to be restrained, something which the population itself understands and accepts.

For some ‘business as usual’ is a wise and cautious building of firm foundations for the next stage of Russian development. The problems and contradictions of the 1990s were slowly unwound through the eight years of the Putin presidency. The stage, while rendered a little untidy by the economic crisis, is ready for the next more proactive stage of development. The most prominent adherent of this view is Dmitrii Medvedev, as expounded in his recent ‘Russia, forward’ article.<sup>66</sup> It has been set out with considerable clarity by Chris Weafer and Leonid Slipchenko of UralSib bank in a September 2009 strategy analysis.<sup>67</sup>

For others, this author included, ‘business as usual’ represents a dead end. Despite the image of toughness at Pikalevo, ‘business as usual’ in fact represents an unwillingness to make tough decisions about the Soviet legacy. On top of that it continues a strategy of populist and somewhat dishonest appeals to a change-weary population that they will be looked after, if need be at the expense of a despised business class. That business class is in fact treated with more benevolence than the Pikalevo imagery suggests. It is a class which has made a positive

<sup>65</sup> Evgenii Gontmakher, ‘Stsenarii: Novochoerkassk-2009’, *Vedomosti*, 6 November 2008.

<sup>66</sup> ‘Rossiia vpered! Stat’ia Dmitriia Medvedeva’, Website of the President of Russia, 10 September 2009, <http://news.kremlin.ru/news/5413>.

<sup>67</sup> ‘Russia’s development path’, *Russian Equity Research: Strategy*, UralSib, September 2009.

contribution to post-Soviet Russian economic development.<sup>68</sup> But it might well have outlived its usefulness. Being so much based on individual entrepreneurs reluctant to give up personal ownership control, the depth of the capital base for the investments needed to take Russia forward has always been an issue and one particularly exposed by the economic crisis. Putin's intervention in Pikalevo, rather than dispossessing Deripaska at a watershed moment, left him struggling to maintain a Soviet-era legacy with severely reduced means to do so, relying on a very reluctant Fosagro to provide assistance. It is hard to see change of the sort described by Medvedev or Weafer and Slipchenko emerging from that.

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<sup>68</sup> Stephen Fortescue, *Russia's Oil Barons and Metal Magnates: Oligarchs and the State in Transition* (Basingstoke: Palgrave, 2006).