



The Importance of Russia's Second-Generation Elite

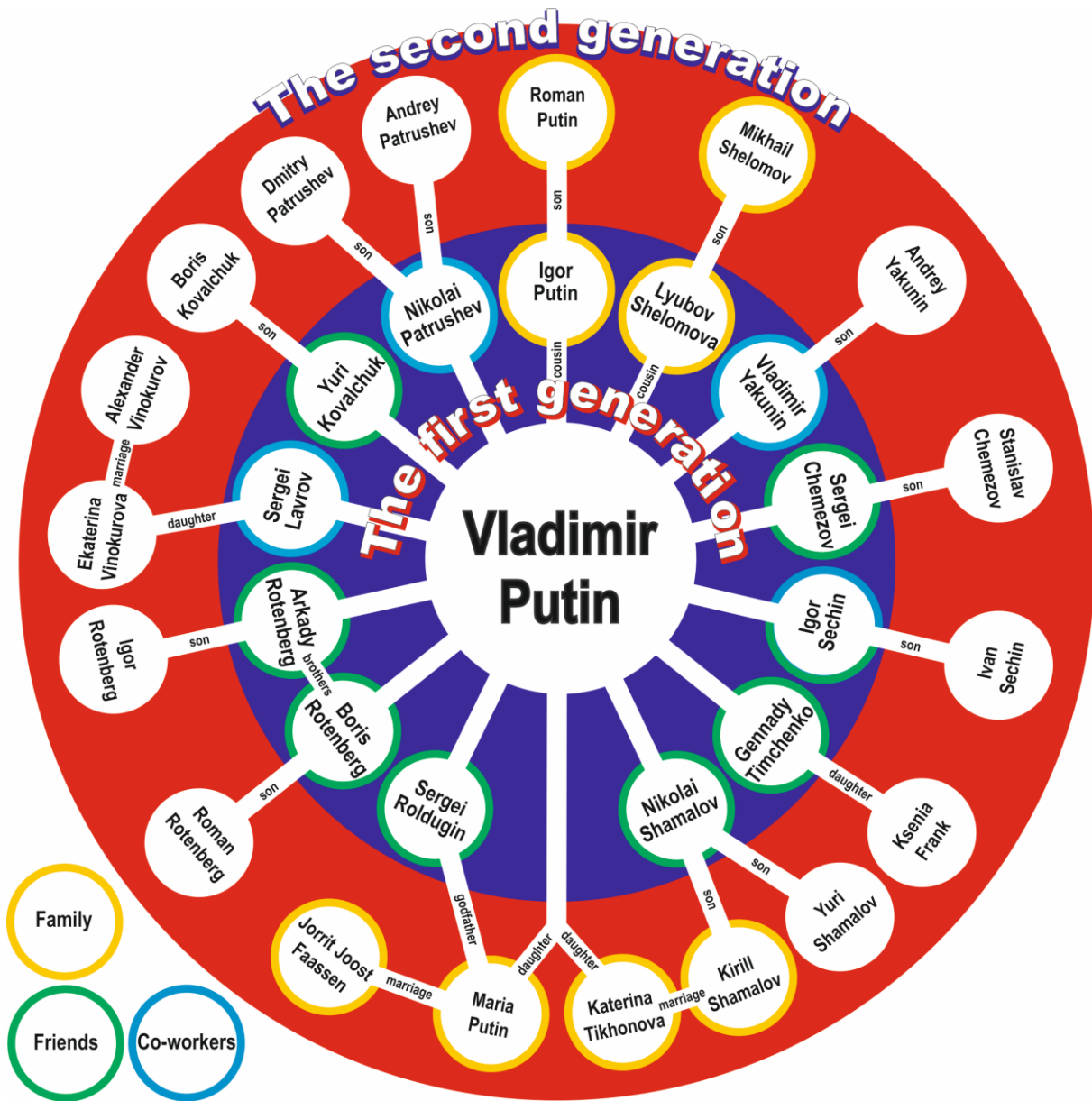
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The appointment of Dmitry Patrushev, the son of the Secretary of the Security Council of Russia, to a ministerial post is a symbol of the ongoing shift of power to a younger generation of Russian leaders. A growing group of so-called "Kremlin Kids" hold significant, even though not visible, positions in the power structures, enabling Russian elites to maintain influence and control through personal and family links. Such a controlled transition will augment a political system that has the features of a kleptocracy and clan-like organisation. For Western countries, it is a signal that Russia's strategic goal of enforcing the change in the European security system will be continued.

The term "Kremlin Kids" encompasses the family members and, more specifically, the descendants of Russia's ruling elite. These descendants play a significant role for their parent within the country's power structure. They hold minimally exposed but important posts, acting as proxies for their relatives, the most influential people in Russia. Among these elite are, of course, President Vladimir Putin,¹ Nikolai Patrushev (Dmitry's father), Minister of Foreign Affairs Sergei Lavrov, Rosneft CEO Igor Sechin, Rostec CEO Sergei Chemezov, as well as the former chairman of Bank Rossiya, Yuri Kovalchuk. This group also encompasses oligarchs linked to the Kremlin, including Arkady and Boris Rotenberg, Gennady Timchenko, and Nikolai Shamalov. This first-generation elite has been looking for successors, whose role will be to secure the wellbeing of the elites, maintain the social and political status quo in Russia, and continue its post-Cold War strategy of regaining its position as a major power.

¹ "Putin and the Proxies", OCCRP, www.occrp.org.

Fig. 1. The First and Second (“Kremlin Kids”) Generations of Russia’s Elite



Graphic by: J. Pieńkowski

The Russian power system’s features of kleptocracy and clan-like organisation means it is built upon a small group of Putin’s friends and cronies, in many cases with family ties.² Furthermore, the country is ruled by an organised hierarchy of people whose official posts do not always reflect the real power within the system. This elite has made its wealth illegally (not accumulated from official salary or normal investments) and is involved in criminal activities in Russia and abroad (e.g., money laundering). What is more, the “clan” feature of the power system means that the elite has formed exclusive ruling groups based on bloodlines and marriage (e.g., between the children of the ruling elite). The marriage between the son of Shamalov, one of Putin’s closest friends,³ and the president’s youngest daughter, Katerina Tikhonova, is one example.⁴

² K. Dawisha, *Putin’s Kleptocracy. Who owns Russia*, Simon Schuster, 2014, pp. 1–12.

³ S. Shuster, “The Secret French Hideaway Where the Putin Family Spends Its Time and Fortune,” *Time*, 13 June 2017, time.com.

⁴ It is worth mentioning, however, that media reported the couple divorced in January 2018. As a result, Kirill was forced to return some of his assets.

There are many more examples of the connection between marriage and a post that helps distribute the control of state assets to the new generation.

The “Kremlin Kids” are eager to translate their links to the elite into profit by offering protection to businesses from legal and administrative threats that may affect ordinary citizens or unaware foreigners. Putin’s cousin’s son, Roman, a former FSB officer, runs the company Putin Consulting and openly admits his relationship to the president. The company’s official website states openly: “[B]usiness in Russia contains many risks of a legal nature. Serious problems for businesses include raider attacks, unjust judicial decisions, unsubstantiated claims by law enforcement, tax and administrative authorities, failure of debtors to pay debts, as well as contractors who set forth baseless financial requirements.”⁵

Katerina Tikhonova manages Moscow State University’s Innopraktika fund, which helps transfer financial resources from major state companies to the elite’s pockets. The fund’s donors include Gazprombank, Rosneft, and Sibur. In 2017, Rosneft became the largest “customer” of the Innopraktika fund, concluding five contracts with the fund worth RUB 258.45 million (about \$4.07 million).⁶

The “Kremlin Kids” in Russia’s Power Dynamic

Thanks to their connections, the ruling elite places their family members on the boards of state companies and the biggest (state and private) banks. These companies form one of the pillars of Russian power. They provide the resources necessary for the survival of the regime, which controls the politics and cohesion of the state through the redistribution of wealth. Externally, they are used to create incentive or leverage on other states to promote Russian strategic goals. Regardless of whether they are state-owned or private, in most cases they are controlled by people with ties to the Kremlin.⁷ The “Kremlin Kids” then often serve as proxies in the management of these firms. Their corporate positions give them more power and money than ministerial posts.

The growing influence of the new generation in the energy sector, the backbone of the Russian economy, has become evident. The country is one of the biggest oil and gas producers in the world, with its industry accounting for around 20% of Russia’s GDP. The role of energy in Russian foreign policy is well researched and documented.⁸ Rosatom, which exports nuclear technology, is one of the main assets in building strategic relations with other states by making foreign contractors dependent on Russian technology.⁹ The Kremlin has used other states’ dependency on Russian gas to exert political pressure on them. Gazprom’s anti-competitive practices have been used against Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Ukraine.¹⁰ Both companies are also important for the survival of the domestic social and economic system, with Gazprom employing about 460,000 people and Rosatom about 250,000¹¹ and revenues of \$93.7 billion and \$13.5 billion, respectively.¹²

Mikhail Putin, the son of one of Vladimir Putin’s cousins, is a long-time Gazprom employee. In March, he was appointed deputy chairman of the Management Committee of the company.¹³ Andrey Patrushev,

⁵ “Putin Consulting,” www.putinconsulting.com.

⁶ In June 2018, Innopraktika received another contract worth RUB 345 million. See: “Fond Kateriny Tikhonovoy poluchil kontrakt «Rosnefti» na 354 mln rubley,” *Vedomosti*, 10 June 2018, www.vedomosti.ru.

⁷ B. Bieliszczyk, “Competition under Control: A Perspective on the Application of EU Law to Nord Stream 2,” *PISM Bulletin*, No. 122 (1564), 6 December 2017.

⁸ See, e.g.: “Energy as a tool of foreign policy of authoritarian states, in particular Russia,” European Parliament, Policy Department for External Relations, April 2018, www.europarl.europa.eu.

⁹ B. Bieliszczyk, “Rosatom Goes Green: New Areas of Russia’s Foreign Cooperation,” *PISM Bulletin*, No. 49 (1622), 28 March 2018, www.pism.pl.

¹⁰ A. Gawlikowska-Fyk, M. Terlikowski (ed.), “Nordic Baltic Security in Times of Uncertainty,” *PISM Report*, PISM, 2018, www.pism.pl.

¹¹ “Personnel structure,” Gazprom, www.gazprom.com.

¹² Based on RBC data from 2016. 1 USD = 63.65 RUB.

¹³ “Mikhail Putin appointed Deputy Chairman of Gazprom Management Committee,” Gazprom, 23 March 2018, www.gazprom.com; V. Soldatkin, C. Lowe, D. Evans, “Putin relative appointed to management of state gas giant Gazprom,” *Reuters*, 23 March 2018, www.reuters.com.

Nikolai's other son, served from 2006 to 2009 as an advisor to Rosneft boss Sechin.¹⁴ In 2015, at the age of 34, Andrey Patrushev became the youngest member of the management board of Gazprom-Neft,¹⁵ where he is responsible for Offshore Project Development, crucial for the company's growing role in the Arctic.¹⁶ Kirill Shamalov, the husband of Putin's daughter, Katerina, has since 2014 been a member of the board of directors of Sibur, a petrochemical company, and since 2017 has also served as the deputy chairman of its management board.¹⁷

The transition of power is also visible in banking. Ceding control over this sector to the "Kremlin Kids" is a major tool for generating money but also helps to secure the elites' accumulated wealth by laundering money and transferring it abroad. Russian banks use offshore companies for mirror trading, which enables them to exchange large sums of roubles to dollars, outside the reach of regulators or tax authorities.¹⁸ The biggest Russian banks are also important to major energy companies' ventures. Banks like VTB, one of Russia's biggest banks, or Gazprombank provide loans and other financial instruments for such investments.

Mikhail Shelomov, the son of another cousin of Vladimir Putin, made a career in the banking sector and through his companies is a shareholder of Bank Rossiya,¹⁹ regarded as the bank of the Kremlin elites.²⁰ His own fortune is estimated at half a billion U.S. dollars. Denis Bortnikov, the son²¹ of the FSB director, serves as the deputy president of VTB.²² Peter Fradkov, the son of former Prime Minister Mikhail Fradkov, who was also the long-time head of the Foreign Intelligence Service, became chief of Russia's Promsvyazbank.²³ The son of Nikolai Patrushev, Dmitry, became the CEO of the Russian Agricultural Bank (Rosselkhozbank). Despite the bank's RUB 48 billion loss in 2014, he received the industry award "Banker of the Year" in 2015.²⁴

However, the most important change might be Dmitry Patrushev's nomination for the post of agricultural minister in May 2018. This is the first time a "Kremlin Kid" has entered politics. He studied World Economics at the Diplomatic Academy of the Russian Ministry of Foreign Affairs, and is a 2006 graduate of the FSB Academy, but did not follow after his father, Nikolai (a former FSB director). Like most of the "Kremlin Kids", he has chosen more profitable positions, not directly connected with the military or special services. He became a member of Gazprom's board of directors and then pursued a career in banking. Only after gaining experience and with his accumulated wealth was he fit for a government career, preparing the ground for the possible generational change within the political elite.

The "Kremlin Kids" on Western Radar

The West's sanctions on Russia after its annexation of Crimea forced the ruling elites to move some foreign investment to the younger generation. Money invested in foreign properties and hidden in numerous banks or offshore funds was a major way of avoiding taxes but also served as an insurance policy in case they lost influence in Russia due to internal power struggles. Chemezov, the chairman of Rostec, a state armaments company, passed to his son Stanislav the management of his financial assets registered offshore, mainly in the British Virgin Islands.²⁵ The founder of the investment fund Volga Group, billionaire

¹⁴ "Nikolai Patrushev", Zampolit, <http://zampolit.com>.

¹⁵ "Andrey Patrushev", Gazprom Neft Pjsc: Profile & Biography, *Bloomberg*, www.bloomberg.com

¹⁶ A. Staalesen, "Patrushev Junior in charge of Prirazlomnaya," *Barents Observer*, 8 April 2015, www.thebarentsobserver.com.

¹⁷ "Executive Management," Sibur, www.sibur.ru.

¹⁸ L. Harding, "Russian millions laundered via UK firms, leaked report says," *The Guardian*, 26 February 2018.

¹⁹ "Putin and the Proxies," *op. cit.*; "Relative Wealth in Russia," OCCRP, www.occrp.org.

²⁰ S. Bowers, "Bank Rossiya, Kremlin's favoured bank, to be 'frozen out of the dollar,'" *The Guardian*, 20 March 2014, www.theguardian.com.

²¹ "Son of Russia's FSB heads Belarusian VTB Bank Board of Directors," *Belsat*, www.belsat.eu.

²² "Denis Bortnikov," VTB, www.vtb.com.

²³ "Fradkov says agrees to become new head of Russia's Promsvyazbank," *Reuters*, 19 January 2018, www.reuters.com.

²⁴ "Patrushev-mladshiy stal bankirom goda, nesmotrya narekordnyy ubyток vozglavlyayemogo im banka," Rosbalt, 10 January 2016, www.rosbalt.ru; "Management Board," Russian Agricultural Bank, www.rshb.ru.

²⁵ R. Shleykov, "Russia: How to Structure a Deal, Russian Style," OCCRP, 7 April 2016, www.occrp.org.

Gennady Timchenko, sold a 12.5% stake in insurance group SOGAZ to his daughter, Ksenia²⁶ in 2014. He also tried to secure some of his assets by selling 17% of his shares in the petrochemical group Sibur to Putin's son-in-law Kirill Shamalov.²⁷ Similarly, Arkady Rotenberg (who has been subject to sanctions by the EU, U.S., Canada, Switzerland, and Australia since 2014) has changed the structure of his business and sold shares in the Gazprom Burenie drilling company to his son Igor (according to data from 29 December 2017, Arkady Rotenberg still holds 78.71% of the shares). Another representative of the Rotenberg family, Boris, a citizen of Finland, transferred several important assets to his son Roman, including 50% of Arena Events Oy, the Langvik hotel, and 49% of the Jokerit hockey club.²⁸

To limit such practices, the U.S. Treasury Department announced what is called the "Kremlin list", with the names of Russians on whom the U.S. may impose personal sanctions in the future.²⁹ The list included Kirill Shamalov. Then, in April 2018, the U.S. Department of Finance imposed sanctions on 24 politicians and oligarchs, including Igor Rotenberg. The U.S. authorities claim "he was appointed to operate in the energy sector of the economy of the Russian Federation and had acquired significant assets from his father, Arkady".³⁰ This indicates that the U.S. authorities recognize the growing role of the "Kremlin Kids" in the system of power in Russia, which has a policy of confrontation with the West.

The Identity of the New Generation

The Russian elites' attitude to the West is a perfect example of the ruling class historical dilemma, how to build an empire that defines itself in opposition to other powers but at the same time benefits from Western achievements.³¹ On the one hand, Russia is interested in dismantling the security order based on NATO and the EU, but on the other hand, it demonstrates a traditional historical inferiority complex towards the West. Despite the anti-Western declarations against liberal values, rich and influential Russians are happy to garner their education, take vacation, and gain citizenship in Western Europe, the U.S. and Canada.³² The deputy of the United Russia party, Sergei Zheleznyak, has repeatedly criticized the European Union and the U.S., but at the same time, educated his daughters in Switzerland and the UK.³³ What is more, Zheleznyak was responsible for legislation requiring NGOs operating in Russia to register as foreign agents and a law prohibiting the adoption of Russian orphans by foreigners.³⁴ While Russian leaders are reluctant to talk about their relatives' professional careers to hide the numerous connections between the Russian political and business systems, some of their kids boast on social media about their decadent lifestyles.³⁵ Such inconsistency becomes problematic for the Russian circles of power and could become a political liability. Vladimir Putin himself has said that both of his daughters live in Russia and have never studied abroad (which is rather doubtful).³⁶ In 2016, some parliamentarians suggested a ban on the education of children of civil servants at Western universities.³⁷ This idea was not adopted and one of those

²⁶ I. Subbotin, "SSHA nanesut tochechnyye udary po detyam rossiyskoy-elity," *Nezavisimaya gazeta*, 28 November 2017, www.ng.ru.

²⁷ "Putin and the Proxies," *op. cit.*

²⁸ Gleb Frank is the son of the former transport minister, Sergei Frank. See: "Nevospolnimyy ushcherb družey Putina," *Informatsionnoye agent-stvo «Ruspres»*, 22 March 2016, www.rospress.org.

²⁹ I. Subbotin, *op. cit.*

³⁰ "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," U.S. Department of the Treasury, 06 April 2018, <https://home.treasury.gov>.

³¹ A. Legucka, "The International Aspects of Vladimir Putin's election campaign," *PISM Bulletin*, No. 117 (1057), 28 November 2017, www.pism.pl.

³² W. Rodkiewicz J. Rogoża, "Potemkin conservatism. An ideological tool of the Kremlin," *Point of View OSW*, No. 48, January 2015, www.osw.waw.pl.

³³ N. Likhachëv, "Docheri Zheleznyaka," *Tjournal*, 25 December 2012, <https://tjournal.ru>; "Zheleznyak otvetil na publikatsiyu Naval'nogo o zhizniyego docherey," *RBC*, 28 October 2016, www.rbc.ru.

³⁴ E. Hartog, "Was a Russian Politician's Daughter Sacked for Political Reasons?, The BBC Doesn't Think So," *The Moscow Times*, 07 October 2016, www.themoscowtimes.com.

³⁵ See e.g.: the Instagram hashtag: #RichRussianKids.

³⁶ J. Newton, "They're not 'star children', they continue to study... and are steering clear of politics: Putin gives rare insight into the lives of his two daughters," *Mail Online*, 17 December 2015, www.dailymail.co.uk.

³⁷ M. Zubov, "Detyam chinovnikov zapretyat učit'sya za granitsey, yesliideyu odobrit Putin," *Moskovskiy Komsomolets*, 15 August 2016, www.mk.ru.

who opposed the initiative was Dmitry Peskov, the president's spokesman, whose daughter has been living in Paris for years.³⁸

The hopes that Western education and soft power will change the mindset of the younger Russian generation has proved unsubstantiated.³⁹ The "Westernisation" of Russian elites is illusory and superficial. The "Kremlin Kids" return home, strengthen the corrupt system or, at best, have no influence on it. The daughter of Sergei Lavrov, Ekaterina, studied political science at Columbia University and then obtained a master's degree at the London School of Economics.⁴⁰ Now in Russia, she runs an art gallery, and her husband, thanks to his father-in-law's contacts, invests, among others, in the pharmaceutical business.

Conclusions and Recommendations

"Kremlin Kids" are the future power elite of Russia. They have already been granted important positions in key sectors of the economy (energy, banking, investments) and will gradually enter the administration and politics. By doing so, they strengthen their parents' position in the Russian system and consolidate the corrosive political and business system in Russia: nepotism, corruption, and money laundering. Therefore, Western states cannot expect the second-generation elite to question the current system of power. Although the Russian system seems unsustainable in the long term, elites with vested interest will be determined to defend it for as long as they can rather than in reforming it. Russia continue to try to strengthen its position as a major power, but its economic and political potential will be constrained by the corrupt system. When its options are limited, the Kremlin may be desperate to revert to traditional politics of adventurism and escalating tensions with the West to consolidate power internally and enforce concessions from the West on Russia's supposed sphere of influence and privileged economic relations with the EU or bilaterally with European states.

The West has limited options to deal with Russia in the long term, but that situation is improving. Four years after Russia's annexation of Crimea, both NATO and the EU have reached strong consensus that there is no better option than a two-track policy towards Russia: On the one hand, Western countries are determined to demonstrate unity and deter Russia from adventurism; on the other hand, they are open to dialogue on the major issues in global affairs. Western states should, therefore, also consider a two-track approach to this new generation, or the elite 2.0, in Russia. Personal restrictions should be a tool employed effectively against the new generation as it takes control of major assets in an attempt to keep them beyond western sanctions. The "Kremlin Kids" should be perceived as a potential channel for the penetration of Russian capital into Western states. The second-generation elite can still try to corrupt the West economically (e.g., bribes, money laundering) and politically weaken its ability to respond to Russia's aggressive actions. That is why the Western policy of resilience should perceive the "Kremlin Kids" as a source of negative influence. The new generation should receive the clear message that Russia will not achieve its strategic goals in Europe through the politics of intimidation and that future elites will not be able to exploit the Western system for personal gains.

At the same time, the second track of Western policy, which encompasses dialogue, should focus more on support of Russian civil society and encourage people-to-people contact, despite the Kremlin's attempts to seal off this form of communication. Ordinary Russians, not the corrupt elites, will remain the most likely source of political change in that country.

³⁸ "Detyam chinovnikov khotyat zapretit' uchit'sya za rubezhom," Radiostantsiya «Ekho Moskvyy», 14 November 2016, <https://echo.msk.ru>.

³⁹ M. de Haldevang, "The US is 'greatly reducing' visas for Russians—and it's going to hurt both countries," *Quartz*, 22 August 2017, www.qz.com.

⁴⁰ "Yekaterina Vinokurova ob ottse Sergeye Lavrove, rabotev Christie's i svoem projekte Smart Art," *Marie Claire*, 20 February 2017, www.marieclaire.ru.