

Privatisation and the new owners

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The trade with the East cannot be understood without the privatisation of Soviet industry in the 1990s. Russia privatised its state enterprises in several waves, of which the voucher privatisation of 1992 to 1994 distributed shares to the population. The subsequent loans-for-shares auctions of 1995 and 1996 transferred control of the largest oil and metal companies to a small group of bankers and industrialists in exchange for loans to the state.¹ The new owners, who became known as oligarchs, controlled companies with enormous reserves but limited access to international markets and finance. They needed partners who could sell their products, finance their operations and help them move part of their earnings abroad.

The traders of Zug and Geneva were among those partners. Their relations with the new owners were commercial, but the political and legal environment of the time made them complex. Ownership was contested and courts could be influenced, while contracts were often enforced by means that Western companies could not use. The traders dealt with this environment through prepayment structures, which protected them because they controlled the flow of the goods, and through offshore structures, which placed the transactions under foreign law. Many of the holding and trading companies that the Russian groups established in Zug date from this period.

1 Notes

1. Wikipedia, "Privatization in Russia", en.wikipedia.org: voucher privatisation between 1992 and 1994, with about 98 per cent of the population taking part; loans-for-shares scheme from 1995, under which banks lent to the state against shares in large enterprises that were never returned. Wikipedia, "Loans for shares scheme", en.wikipedia.org: Norilsk Nickel (51 per cent, Potanin), Yukos (45 per cent, Khodorkovsky) and Sibneft (51 per cent, Berezovsky). ↩

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