

# THE RUSSIA JOURNAL

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Recent crashes lead to insurance premium hikes.



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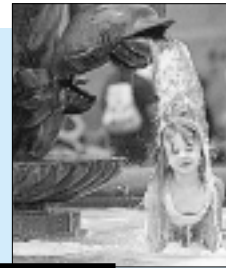
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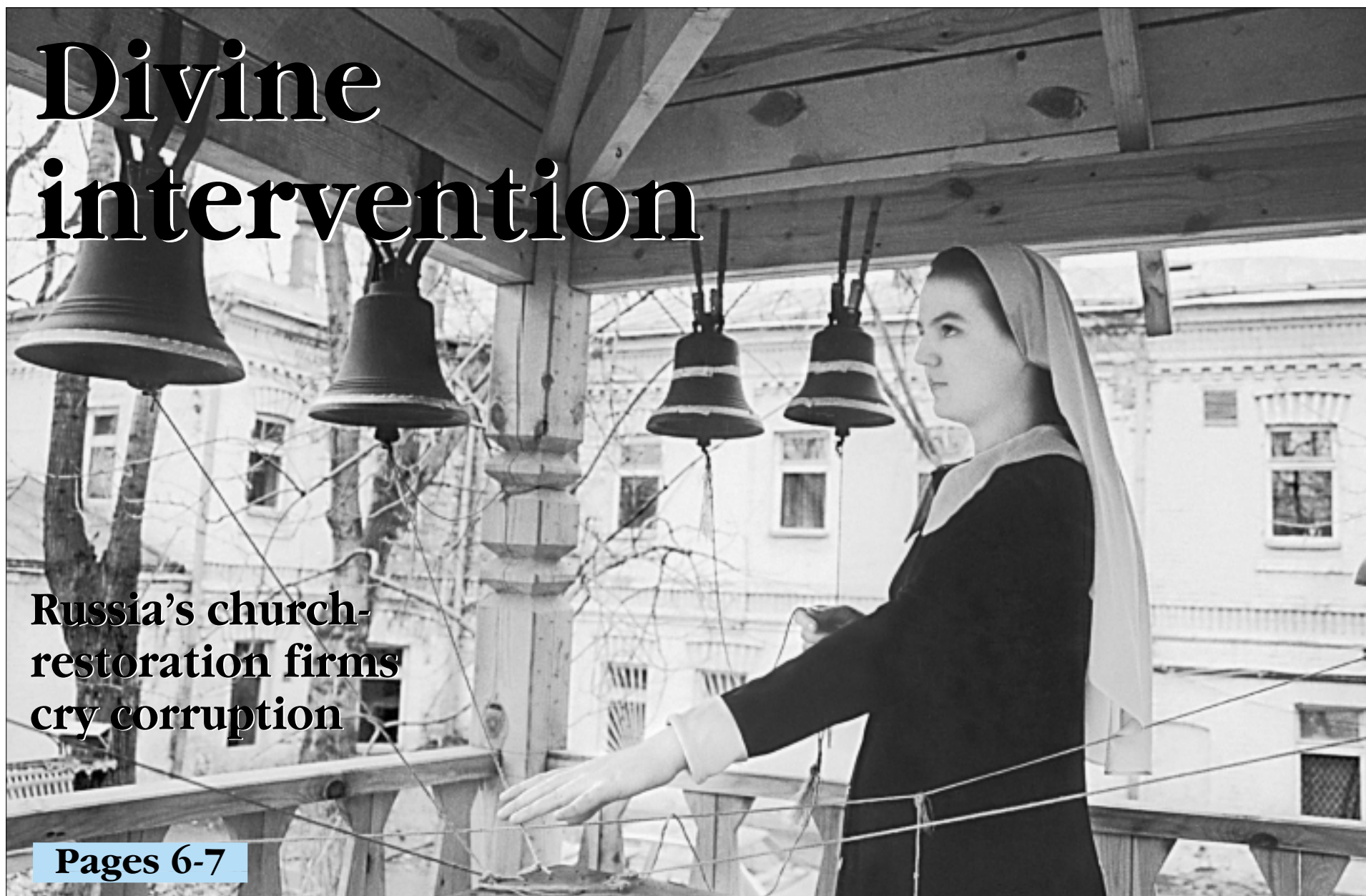


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ИД "Коммерсантъ"

НТВ

# Who owns Russia

The Russia Journal presents the next installment in a Kommersant-Vlast and NTV report that unmask the people behind Russian industry.

## Welcome to the music industry



### History of the sector 1991-2000

By YURY YAROTSKY

**B**y 1991, the Russian music business industry had already all but shed its Soviet heritage. Melodiya, the state recording company, had lost its influence on the market and official concert organizers were losing ground to private organizers. The sector's subsequent history is one of putting into place more civilized market laws and a general increase in activity that was dealt a sharp blow by the 1998 financial crisis.

#### 1991

In September, a concert called the Monsters of Rock at Tushino took place at the Tushino airfield in Moscow. On stage were Metallica, AC/DC and the Black Crowes. Fans and police clashed on the airfield. The concert was organized by Boris Zosimov, then a little-known entrepreneur.

In December, Russia's first FM radio station, Radio Maximum, hit the airwaves. It

was founded by weekly paper Moskovskiy Novosti and U.S. companies Westwood One Inc., Story First Communication and Harris Corporation. Alexander Kasparov, Radio Maximum's first program director, is now regional director for EMI in Eastern Europe.

#### 1992

An audio and video market opened in the Gorbunov House of Culture in the west of Moscow. This market went on to become the famous Gorbushka, the biggest pirated audio and video market in the world.

The Ovatsiya national music prize was awarded for the first time in the Rossiya state concert hall. The awards were organized by obscure businessmen Grigory Kuznetsov and Anatoly Sirotyuk. Prizewinners that year included Na-Na, Oleg Gazmanov, Tanya Bulanova, poet and songwriter Alexander Shaganov and Radio Evropa Plus. Right from the start, there were accusations that the Ovatsiya

prizes were awarded in exchange for bribes. In 2001, Sirotyuk announced that, from then on, he would take money for giving an award officially.

#### 1993

Russian recording company SBA/Gala Records signed an agreement with EMI, whose catalogue included the Beatles albums, David Bowie and many other popular artists. This was the first Western major to enter the Russian market.

The Russian Supreme Soviet passed a law on copyright and related rights. A year later, the International Federation of Phonogram Producers opened a representative office in Russia. For the first time, the country had a legal basis to protect copyrights and fight audio piracy.

#### 1994

Polygram, the second major company to enter the Russian market, opened an office not far from the Gorbushka market. Boris Zosimov became Polygram's first director in Russia. Zosimov was also the first to begin marketing recordings of Russian artists under the Polygram label. These included Philip Kirkorov, the Obermaneken group and Zosimov's daughter, Lena Zosimova.

#### 1995

In May, Radio Maximum gave its backing to the first Maxidrome rock festival in Moscow. The festival was organized by Maximum's program director, Mikhail Kozyrev, producer Dmitry Groisman and heads of Rise Music Vladimir Meskhi and Leonid Landa. Groups taking part in the festival included Agatha Christy, Va-Bank, Bravo, Nogu Svelo!, Nyeprikasayemiye and others. The experience was a success and gave Russia its first major annual rock festival.

BMG, the third major to come to Russia, opened a representative office.

From May to June, a string of international stars — Roxette, Joe Cocker, Elton John, Diana Ross and Julio Iglesias — played in Moscow. Most of these concerts were organized by SAV Entertainment.

In October, a presentation was held in Moscow for the magazine O!, the first Russian publication devoted to pop music and designed along the lines of similar publications in the West. The magazine was published by Seva Novgorodtsev, the BBC Russian service's legendary music program host. But there was only enough money to put out three issues. The niche for a quality pop-music magazine in Russia remained empty until 2001, when the first issue of the Russian version of British weekly New Musical Express appeared.





Iosif Kobzon

The Aprelevsky recording factory was privatized. Around half the shares remained in state hands. The company soon found itself on the brink of bankruptcy and was saved only by renting out factory space. Now part of the factory is used to produce noodles.

In October, the Stantsiya radio station, created by Rise Music, began broadcasting. It focused on trendy dance music.

## 1996

Then-President Boris Yeltsin's presidential election campaign managers came up with the "Vote or Lose" slogan and got almost all of Russia's rock and pop stars to give concerts supporting him. This reached a high point in June, when Yeltsin danced on stage during a concert by Yevgeny Osin in Rostov. A few days later, Sergei Lisovsky, one of the organizers of the Vote or Lose campaign, was arrested while trying to take a box with \$500,000 out of a government building.

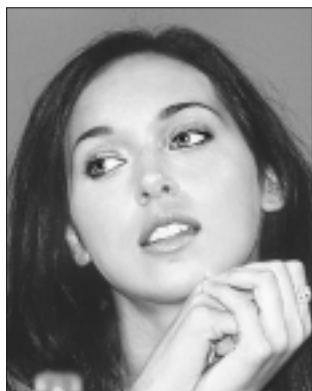
General Records, a company set up by SAV Entertainment and music critic Artemy Troitsky, put the collected works of Alla Pugacheva on the market. The collection contained 13 CDs with 211 songs and sold for \$150. Rumor had it that Pugacheva was the first Russian show-business star to be paid royalties of more than \$100,000.

In September, Kirill Zelenov, the co-owner and director of ZeKo Records, was killed. At that time, ZeKo Records was one of the largest recording companies in Russia and its catalogue included Alla Pugacheva, Mikhail Shufutinsky, Irina Allegrova, Igor Nikolayev, Natasha Koroleva and Alexander Malinin; groups such as Tekhnologiya, Dyuna, Primus, Lesopoval and ChaiF, and dozens of other artists. The investigation revealed that the murder was arranged by Vladimir Kozlov, the other co-owner of ZeKo Records (the company's name comes from the first letters of its co-owners' last names). Zelenov had accused Kozlov of embezzlement and tried to have him removed from among the firm's founders. In 2001, Kozlov was sentenced to 11 years in prison.

## 1997

In September, singer Iosif Kobzon gave a farewell concert in the Rossiya state concert hall. Kobzon had said that this would mark the end of his performing career. Almost the entire political and business elite of the country attended the concert, which went on until six in the morning. Kobzon kept his promise only in part. He hasn't performed any solo concerts since that date, but he regularly takes part in concerts with other stars, giving his preference to birthday performances at the Rossiya and State Kremlin Palace concert halls.

In September, French musician Jean-Michel Jarre gave a concert on the Vorobyevy Hills in Moscow as part of the city's 850th anniversary celebrations. More than 2 million Muscovites went to the concert. The police tried desperately to limit the flow of people coming to the show, but people even used rafts to cross the Moscow River in an attempt to get to the square in front of the Moscow University building on the hills. All the nearby metro stations were closed after-



Alsou

wards in an effort to prevent a crush from taking place. It took people several hours to make their way home after the concert.

## 1998

Russian recording company Soyuz, one of the country's largest, signed an agreement with Warner. This marked the arrival of the fourth major on the Russian market. Warner worked with Soyuz until 2000 and then decided not to renew the contract and began working instead with young Russian recording company WWW Records. Warner did not divulge its reasons for not continuing work with Soyuz.

In April, Boris Zosimov announced an agreement between BIZ Enterprises and MTV Networks on launching MTV Russia. The TV channel began broadcasting in September that same year. The first clip it showed was Mumiy Troll's "Vladivostok — 2000."

In August, just a few days before the financial crisis, the Rolling Stones gave a concert at Moscow's Luzhniki sports stadium. The group's fee was a \$1.4 million — an unprecedented sum for Russia. Rumor had it that Silence Pro, the company that organized the concert, suffered heavy losses as a result of not being able to collect ticket sales earnings from distributors and has been involved in less-high-profile projects since then.

The financial crisis caused the bottom to fall out of the Russian audio market. Of 220 recording companies, only 70 were still operating by the end of the year. The distributors felt the blow the hardest — they had signed contracts in rubles and lost a great deal of money as a result. But almost all the major companies survived the crisis.

In December, Nashe Radio, a project between Boris Berezovsky's LogoVAZ and Rupert Murdoch's News Corporation, began broadcasting. Mikhail Kozyrev, who was unexpectedly fired from Radio Maximum five months earlier, became director of Nashe Radio.

## 1999

The singer Alsou signed a contract to put an album with Universal Music. In Russia, Alsou's affairs were managed by Universal Russia, which had changed its name from Polygram after being bought by the Seagram company.

In August, MTV Russia organized a concert that included U.S. group the Red Hot Chili Peppers on Vasilievsky Spusk, just behind Red Square. A year later, the Moscow mayor's office banned such large-scale concerts close to the Kremlin. Rumor had it that Patriarch Alexii II had asked for the ban after being outraged by the Red Hot Chili Peppers concert.

## 2000

Sony music entered the Russian market, completing the list of major recording companies present in Russia.

In August, the Nashestviye rock festival was held in Ramenskoye near Moscow. This was Russia's first two-day open air rock festival. There were worries about keeping order, but the crowd of more than 100,000 people didn't cause any problems. The film "Brat-2" was played on giant screens at night and the concert ended with a performance by Zemfira.



Sergei Arkhipov

# The sector today

Even back in Soviet times, there were business-minded impresarios who knew how to organize tours so that artists would get a handsome fee — of which they would get a good cut. With the arrival of capitalism, these people had the opportunity to give their entrepreneurial talents full rein. But not all were successful, and many key positions in show business have been snatched up by people previously not connected to the sector.

## ARS

ARS is run by composer and businessman Igor Krutoi. The company is involved in practically every area of show business, from managing artists to organizing concerts and broadcasting. The list of artists working with ARS includes Valery Leontiev, Alexander Serov, Boris Moiseyev, Laima Vaikule, Irina Allegrova, Diskoteka Avaria and Prime Minister.

ARS has its own radio station — Love Radio. In 2000, ARS almost got the right to nighttime airtime on RTR, which had had plans to launch an alternative to MTV from 1 a.m. to 6 a.m. But Krutoi was not up to that project, and his television presence is limited to the programs "Dobroye utro, strana!" and "Pesnya goda."

## LogoVAZ-News Corp.

The company managing the media assets of former Duma Deputy Boris Berezovsky was set up by him and Australian media magnate Rupert Murdoch. It includes two entertainment radio stations — Nashe Radio and Radio Ultra. Nashe Radio began broadcasting in December 1998, and Ultra began in November 2000.

From a commercial point of view, the formulas chosen for these two stations are not the best — Nashe Radio plays Russian rock and Ultra plays alternative music. Both stations are run by Mikhail Kozyrev, who was program director at Radio Maximum until 1998.

The two station's programs are produced by Ultra Production, a company that is also part of LogoVAZ-News Corporation. Kozyrev is one of the few station directors who regularly appear on the airwaves. He hosts the Nashe Radio hit parade.

LogoVAZ-News Corporation also includes the Real Records record company. Real Records took over the market held by ORT Records, the TV channel ORT subsidiary that closed down. Real Records now works with Alsou (for her Russian-language work), Zemfira and ChaiF.

## MTV

MTV Russia and the Hit-FM radio station are now controlled by Boris Zosimov. Over his career, Zosimov has worked in one capacity or another in almost every area of show business. He has organized concerts (he was one of the people behind the concert with Metallica, AC/DC and the Black Crowes at Tushino in 1991), worked in the recording business (he was head of the Russian section of Polygram, now Universal Russia, and still holds a 49-percent stake in the company) and has also worked in publishing (he published

Imperial, one of the first glossy magazines in Russia).

Before MTV Russia began, Zosimov and Viacom company had a long history of relations.

Thanks to Zosimov's efforts, clips with the MTV logo appeared at various times on the 2x2, Ostankino and TV6 TV channels. Zosimov later organized broadcasting under his own trademark, BIZ-TV.

This was what became MTV Russia in September 1998, at the height of the financial crisis. In September 1999, Zosimov said in an interview with Kommersant that he had sold part of his shares to Viacom, though he did not name the number of shares or the size of his remaining stake.

Having a clip played on MTV has become virtually a requirement for any artist to be successful. Not all fit the channel's format, but they can always try to get played on Hit-FM, which has a more liberal music policy.

Getting played on TV and on the radio is good publicity and makes it possible to rake in more money from concerts and audio sales.

MTV doesn't take money directly from artists, but uses a more cunning scheme for making money out of them.

It either proposes that they appear without a fee in regional promotion events, or requires that clips be filmed by MTV employees so they'll be considered up to the channel's standards — for a fee, of course.

MTV's only rival in Russia is the Muz-TV channel, which belongs to Alfa Group. Muz-TV's ratings are slightly lower than MTV's, but its regional broadcasting network is more developed.

Muz-TV's general director is Ruben Oganezov, who used to run the large production company Mediastar, which, until summer last year, managed Russia's most successful rap stars, led by Detsl.

Now it manages and puts out albums for the singer Nikita, the group Dinamit and other new popular artists.

## Russkaya Mediagruppa

This company is managed by three co-owners — General Director Vladimir Bogdanov, President Sergei Arkhipov and Chairman of the Board Sergei Kozhevnikov. The company's best-known project is Russkoye Radio, the country's most popular radio station.

As well as Russkoye Radio, Russkaya Mediagruppa also owns Radio Monte Carlo, Dinamit-FM, Radio Tango and Russkoye Radio-2, which replaced the Stantsiya dance music station bought by Russkaya Mediagruppa.

The company also owns the Gramophone Records record company and companies organizing concerts by Russian artists at home and abroad.

Every year, Russkoye Radio organizes the Zolotoi Gramofon awards held in the Kremlin with almost all Russian show business stars taking part.

It's possible to listen to Russkoye Radio almost anywhere in the whole country, and having control of so much of the airwaves makes Russkaya Mediagruppa very influential in the entertainment world.



Mikhail Kozyrev



Boris Zosimov



Troitskiy

## SAV Entertainment

SAV Entertainment was founded by Alla Pugacheva's ex-husband, Yevgeny Boldin, and her former interpreter, Nadezhda Soloveva. In recent years, this company has become the number one organizer of concerts in Russia by Western artists. SAV has helped bring to Russia Diana Ross, Elton John, Sting, Brian Ferry, Depeche Mode, Offspring, Eric Clapton, the Scorpions, Mel C, Yes, Brian Adams, Prodigy (who gave an unprecedented free concert on Manezh Square) and many others.

With this kind of experience, the company has no trouble reaching agreements with the agents of well-known Western stars.

Sponsorship support from Alfa Bank for particularly expensive projects, such as Elton John's concert at Tsarskoye Selo, gives SAV a big advantage over competitors, because unlike in the West, it's virtually impossible in Russia to recoup expenses through ticket sales for concerts by Western stars.

But SAV actually does have several competitors that are doing perfectly well.

The Russian Academy of Entertainment, for example, (the former Andrei Agapov Agency) has organized the Russian concerts of Enrique Iglesias, Eros Ramazotti, Marilyn Manson and others and also organized the bullfight that was to be held in Moscow last year before it was banned.

Promoter Vladimir Kiselyov, who used to organize the White Nights festivals in St. Petersburg and concerts under the aegis of Moskovit, a company controlled by Iosif Kobzon, now runs the state Kreml company, which many consider to be under the patronage of Vladimir Kozhin, the presidential household affairs department manager.

Kiselyov prefers to bring rock stars with some history to Russia, such as Status Quo, Mango Jerry, Rick Wakeman and others. Kiselyov also organized last year's concert by Jose Carreras on Red Square.

The TCI company specializes in "heavy" music. Its greatest success was the Rammstein concert at Luzhniki last year (this year's concert was cancelled), for which tough security measures were taken to guard against public disturbances. TCI was the first company to risk taking Western stars beyond Moscow and St. Petersburg and organized concerts by Nazareth, Deep Purple and singer Sam Brown in several Russian cities.

The JSA company has been increasingly active over the last two years, branching out from doing the technical organization for concerts to taking care of overall organization. JSA has organized Russian concerts for Roxette, Alice Cooper, Guano Apes, Muse and others.

## Prospects for the sector

Russian show business is developing in strict accordance with the laws of the market economy. Small companies either disappear from the scene or are swallowed by larger companies. Large companies, meanwhile, are grabbing more and more market niches and leaving no room for newcomers.

Like any other business, show business works for a specific consumer and depends on purchasing power in the country more than anything else. This was particularly clear after the default, when

hardly any Western artists came to Russia, and recording companies either went bankrupt or reduced their activities to a minimum. Now recovery is underway, but there are still some problems.

As sales have increased, so has piracy. The International Phonogram Producers Association estimated that pirated recordings accounted for 64 percent of the Russian audio market in 2001 (an increase of around 2 percent compared to 2000). The losses to copyright-holders are estimated at up to \$550 million. Last year, 42 million pirated CDs and 154 million pirat-

ed cassettes were sold for around \$250 million. The number of pirated CDs increased, as the Russian factories producing them increased their capacity, and the ineffective system for enforcing stamps on legal CDs couldn't cope.

But the number of pirated cassettes decreased, and experts say that is because legal producers are now practicing a more reasonable repertoire and price policy.

The five major Western recording companies — EMI, Warner, BMG, Sony and Universal — are becoming more active on the Russian audio market. BMG has signed a contract with singer Linda. Sony works with the group B2 and Universal promotes Alsou and Tatu.

Experts also note that regional recording companies are becoming more active. One of the most notable is Russky Zvuk, which includes companies from Pereyaslavl-Zalessky, Kazan, St. Petersburg, Mineralniye Vody, Rostov-on-Don and Novosibirsk. Lyube, one of Russia's most successful groups, has already announced that it will work with Russky Zvuk.

More orderly sales of legal CDs and cassettes in the regions should increase the share of legal production.

This is more important because the number of CDs released is still limited. It's still rare for more than 100,000 copies of an album to sell — a figure considered low even in European countries with a much smaller population than Russia.

The tour business is also developing. Major Russian stars have several concerts a week in Moscow, sometimes several

times a day — something unthinkable only a year ago.

Concerts by foreign stars have also increased, with several major concerts a month. Concerts planned for this year include Bob Dylan, Whitney Houston, Aerosmith, Toni Braxton and Radiohead. The only stars that Russian promoters cannot yet attract are the real superstars, like Madonna and Paul McCartney — even with help from sponsors, it's not possible to cover the expense.

Few changes are in store for media outlets closely linked to the show-business world. Strong players have already edged out the weaker players.

Unprofitable radio stations such as Radio Rox, Radio Nadezhda, Radio NSN and Stantsiya were all closed down.

The large holdings that have taken their place are interested, above all, in generating advertising revenue, rather than in cultivating the musical taste of their listeners. The only changes will be in the volume of the advertising market, and thus in the profits radio stations make. The same goes for entertainment TV.

In general, the Russian show business industry is on the way up, by all measures except one. The West is interested in Russia only as an importer of music and artists from abroad.

Numerous attempts to get Western listeners interested in Russian music and artists have ended in failure. The only breakthrough so far came when Rostov-based techno group PPK took third place on the British charts, but this is more likely to prove the exception, not the rule. ■

...The number of pirated cassettes decreased, and experts say that is because legal producers are now practicing a more reasonable repertoire and price policy.

