

## **Export of Corrosion:**

### **How Practices from Russia Penetrate and Undermine US and UK**

Prepared for a panel discussion "*Export of Russian Corruption: From Kremlin with Hate*" at the annual Convention of The Association for Slavic, East European, and Eurasian Studies (ASEEES),

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#### **Executive summary**

- Since Cold War US and UK governments chose to oppose Russia only on traditional hardcore criminal issues (arms control, espionage, outright crime, etc.) but neglect highly questionable and ethically debatable practices and appease Kremlin in exchange for nuclear proliferation and select regional cooperation issues (e.g. Iran, Korea, Afghanistan, arguably Syria).
- Below is a detailed analytical update on 6 hardcore and 13 highly questionable/debatable layers of export of corrosive practices from Russia based on a thorough overview of data since Putin's grab of power in 2000.
- The main argument of the report is that neglected layers of corrosion, although less harmful at a first glance, are nevertheless extremely dangerous in the long run as they undermine democratic values, institutions and practices in US and UK and can undermine national security by importing Russian practices to the West.
- New forms of corrosion export often come without direct support of Russian state but through corporations or powerful individuals connected to Putin's regime.

- US and UK governments, media and opinion-makers should be bolder in filtering and counter-acting penetration of Russian corrosive practices in international organizations, internet, western media, legal and financial system, elections, lobbying, think-tanks, universities, real estate. While the exact terming of this new containment/filtering and its extent requires more research and public discussion, this report tries to synthesize most basic and initial policy suggestions for each layer in one summary table at the end. The report hopes to spark a renewed frank debate on these complex but acute issues.

## **Introduction**

In the early 1990's, after collapse of the USSR, the predominant political belief both within the former Soviet bloc and in the West was that liberal values and democratic practices would gradually but inevitably replace totalitarian tendencies and the planned economy in Russia and its neighboring, newly independent states. Even when ex-communist party leaders and representatives of soviet security services returned to power in FSU countries in the late 1990's to mid-2000's, the mainstream political outlook remained within the paradigm of inevitability of democracy. Experts debated timing, speed and national deviations but, by and large, not the ultimate destination.

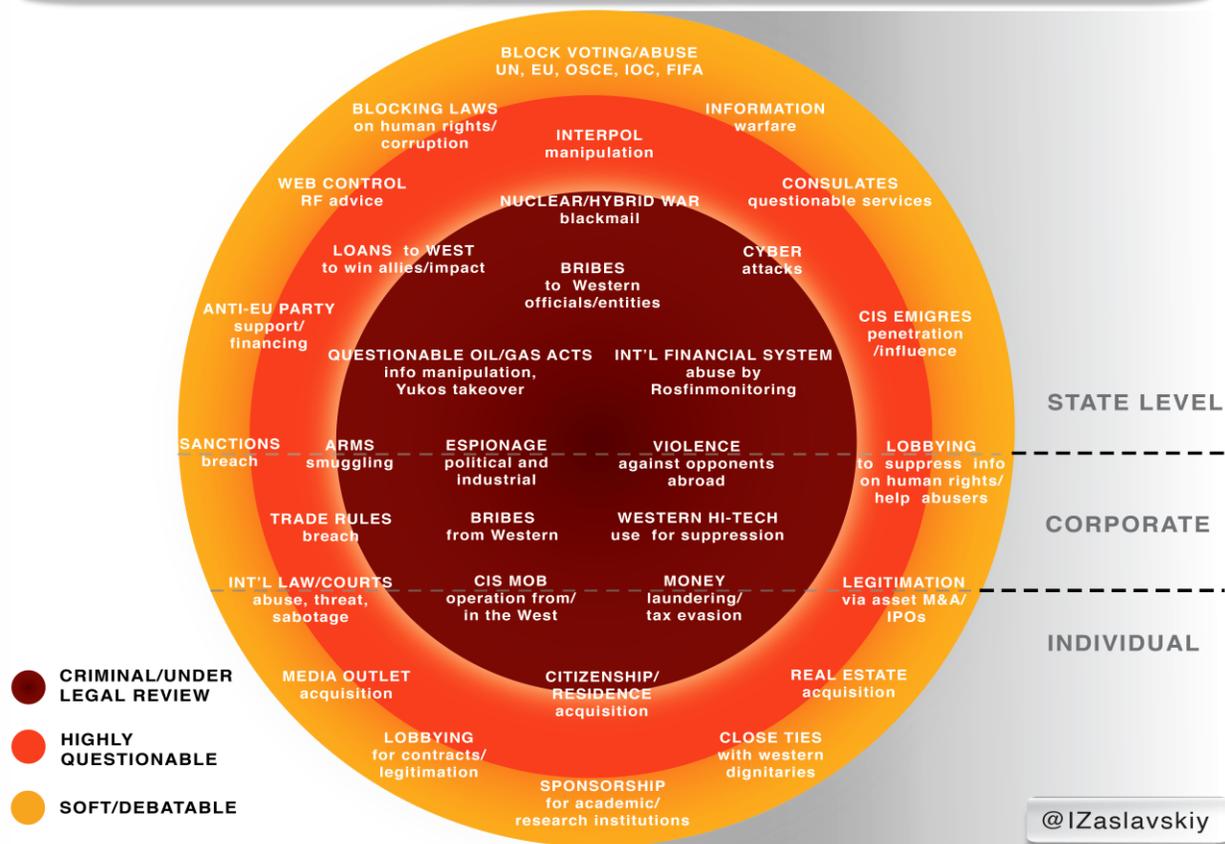
However, in our view, in certain key aspects erosion of democratic values and the financial crisis of 2008 are repeating the 1930's in our time and Western liberal democracy is no longer seen by most FSU regimes, including Russia, as the only viable system and a desirable goal. Metaphorically speaking, the floodgates in the iron curtain opened, but the long-term flow did not go in an anticipated unilateral way. Instead of installing democratic institutions, rule of law and accountability, the reverse trend has been highly visible over the last decade. Since the early 2000's the Russian political and economic system is increasingly exporting multiple forms of its indigenous corrosive practices and established non-democratic values to Western countries.

In this study, corrosion will be defined as a broader notion that includes not only outright criminal acts, but also any legal but highly questionable and debatable activity that undermines Western democratic institutions, laws and businesses or leads Western public opinion in false directions.

## Research aims

This paper has several analytical and policy-making aims. First, it seeks to outline and categorize various forms of exported corrosion from core (straightforward criminal acts that are already well-defined and covered in the US and UK legal systems or under current legal review) to highly questionable (where Western laws and public opinion are currently in a transitional state) and down to soft and debatable forms (that usually involve ethical questions and democratic values or issues beyond the reach of current international or national laws). The main focus of the paper is on the latter two categories, as we believe that their sheer magnitude and relative novelty have been underestimated among American and British policy-makers. However, more traditional forms of corruption will be covered at the beginning of the article to highlight what are holdovers from Russia's soviet past and what new forms have been added under President Vladimir Putin's rule in the last 13 years.

### EXPORT OF CORROSIVE PRACTICES FROM FSU TO THE WEST



Separating Russia's negative impact on the US and UK in terms of many layers (as shown in figure 1 above) is useful as it presents a macro picture through a myriad of individual pieces, each with its unique characteristics. Besides levels of criminality/legality, each layer can be explored and distinguished through answers to a number of key questions: does a particular layer of corrosive practice originate from Russian state, corporate or individual level (or a combination of levels)? If it is deliberate, who coordinates it and how consistently? Is it costly to carry out or labour intensive? Does it reach its set goals in US and UK? How are these countries responding to it, especially at policy-making and public opinion levels? If the response is negative, what measures are taken? If certain corrosion activity is accepted what are the reasons for that?

The author's strong belief is that while there is considerable media coverage of most of the individual layers of traditional corruption exported to US and UK, mainstream public opinion and the majority of policy-makers do not see them threatening core national interests at a level enough to justify international containment and robust counter-measures against the Russian ruling elite, corporations and individuals associated with it.

The ultimate aim of this research is to evaluate the impact of penetration of different corrosion layers in the short and long term and to give policy suggestions to US and UK governments, NGOs and media. The paper does not pretend to present a systematically quantified and exhaustive catalogue of all possible ways that Russia-related factors undermine democracies in US and UK. Instead, it is an attempt to highlight and summarize both well-covered and relatively unknown developments in a comprehensive overview with the goal to identify: a) the hugely underestimated volume of Russia's penetration in what can be broadly termed as the arena of Western countries' soft power; b) intricate new ways through which Putin's regime and Russian corporations/individuals have departed from traditional soviet methods in order to achieve their goals in Western democracies; c) ways to contain and/or counteract externalities emanating from Russia and potential costs for US and UK for failure to adopt defensive measures. The principal feature of this paper is that it is almost entirely based on open English and Russian language sources and attempts to come to common sense conclusions that can be derived from these publicly available materials.

## **Chapter 1. Outright criminal export**

The dangerous and illegal habits of Russian organized crime, security services and wealthy tycoons – groups that are often seen in the media as one large and interconnected gang – have become something that is now almost naturally associated with post-Soviet regimes, especially Putin's, as lavish amounts of petro dollars poured in the country since 2000. The association is so widespread that some Western, pro-Putin lobbyists even go as far as to lament conflating Russia as a nation/country and Russian government as one is akin to anti-Russian racism. The following interview of the chairman of the Westminster Russia Forum in London, a lobby group with links in the Conservative party in the UK (covered in more detail later in the paper), who in parallel works as public affairs manager for a gambling company Ladbrokes is a telling example of this:

There is, of course, a much more dangerous stereotype that is constantly being regenerated by the media. This stereotype always links Russians to crime, corruption, impropriety, espionage...even murder. Of course there have been well-publicized events that are at the forefront of peoples' minds, and the fact that these haven't been resolved makes this worse. But these are individual cases that can't be applied in blanket fashion to an entire nation... It's considered inexplicable that a Russian could hold a powerful job in the UK without being a spy, or that a Brit could have an interest in Russian politics without being paid by the Kremlin. Its outrageously small minded, but unfortunately it sells newspapers!<sup>1</sup>

So, which individual cases have there been at the forefront of media and how much can we connect them to politicians in Kremlin? We will start with most heinous criminal acts – assassinations.

### **Assassinations**

There are no high-level, publicized murders on US soil that the media could connect to Putin's government and its business supporters. One of the obvious reasons for that is that Kremlin has much more respect and fear for the possible US retaliatory measures if such killings did take place, however, this stands in stark contrast to Russian-British relations. Besides geopolitical causality, the UK also leads the list of mysterious assassinations and unresolved murder attempts related to affairs in Russia as so much capital and so many entrepreneurs and fugitive political opponents from that country settle in London. Below is the brief update on the most famous cases as to where they are now in terms of finding Russian authorities' participation in them.

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<sup>1</sup> <http://wrforum.org.uk/uk-russia-relations-an-interview-with-the-chairman-of-the-westminster-russia-forum>

The November 2006 poisoning by radioactive polonium-210 in central London of Alexander Litvinenko, the fugitive officer of the Russian FSB secret service who specialized in tackling organized crime, remains largely unresolved despite years of intense investigation. The British investigation resulted in a failed request to Russia for the extradition of Andrey Lugovoy, a former KGB operative, whom they accused of Litvinenko's murder. In October 2011, Litvinenko's widow Marina won the right for an inquest into her husband's death to be conducted by a coroner in London; however issues relating to examinable evidence and UK national security have repeatedly set delayed the process.<sup>2</sup>

Although the court has the right to explore MI-6 files that could link Russian government officials to Litvinenko's death, David Cameron's government has restricted the scope of a planned inquest by official fiat. A *New York Times* commentator alleges that: "an attempt to convene a public inquiry with broader powers of scrutiny has been denied. Through the prism of realpolitik, trade, energy and intelligence-sharing with Russia, and the dictates of international diplomacy in Iran and Syria, all trump disclosure."<sup>3</sup> In October 2013, three high court judges turned down a request to set a formal limit on the potentially ruinous costs Litvinenko's wife might incur from the fees charged by government lawyers if she loses the next battle in her continuing fight for a full inquiry. This happened despite appeals by the widow's lawyers that Litvinenko's murder was carried by what can be termed as a radioactive terrorist attack in the center of London that put to risk lives of many people, and is a clear example when public money should be offered to pay for the court procedures as allowed by UK regulation in cases of high national importance.<sup>4</sup>

In May 2013, Russian opposition media alleged that the reason the UK government is against a full inquiry is because Litvinenko gathered evidence of criminal activity of Viktor Ivanov, one of Putin's closest associates and the former chairman of Aeroflot's board of directors and head of the Federal Drug Control Service. Litvinenko's friend and confidant Aleksandr Goldfarb argues that the case is also kept

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<sup>2</sup> <http://www.snob.ru/profile/9402/blog/61532>

<sup>3</sup> [http://www.nytimes.com/2013/10/11/world/europe/a-spy-thriller-now-a-wifes-endless-pain.html?\\_r=0](http://www.nytimes.com/2013/10/11/world/europe/a-spy-thriller-now-a-wifes-endless-pain.html?_r=0)

<sup>4</sup> <http://www.ft.com/intl/cms/s/0/fb366fc6-2c3b-11e3-8b20-00144feab7de.html>

secret because Litvinenko managed to uncover direct criminal links between organized crime in Spain and the Kremlin.<sup>5</sup>

In March 2012, former Russian banker German Gorbuntsov was severely wounded by an assassin on the street in London near his house. Media sources linked this murder attempt to an ongoing criminal struggle in the Russian financial system and no political factor was apparently involved.<sup>6</sup> However, so far the UK police have issued no clear and definitive conclusions on the case.

In November 2012, the 44-year-old Alexander Perepilichny was discovered dead on a roadside in Surrey, England. This mysterious death happened inside a protected elite compound when Perepilichny went for a run near his house, it was reported that he was a healthy person.<sup>7</sup> There are many doubts about causes of this death as Perepilichny was a former member of the Russian organized crime syndicate known as the Klyuev Group, responsible for the \$230 million tax fraud that Russian whistleblower Sergei Magnitsky uncovered in 2008. Perepilichny escaped to the UK and became the main informant feeding inside information pertaining to the Klyuev Group's criminal activities, including bank documents, to William Browder of Hermitage Capital, Magnitsky's former client, as well as to Swiss prosecutors.<sup>8</sup> Although local police reportedly conducted a toxicology report to determine Perepilichny's cause of death, so far it has not been made public.

In March 2013, the Russian oligarch Boris Berezovsky, an arch foe of Putin, was found dead in his home, near Ascot in Berkshire. According to the British police, a post-mortem exam found that his death was consistent with hanging and that there were no signs of a violent struggle.<sup>9</sup> However, these

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<sup>5</sup> [http://tvrain.ru/articles/v\\_dele\\_ob\\_ubijstve\\_litvinenko\\_pojavilsja-343811/](http://tvrain.ru/articles/v_dele_ob_ubijstve_litvinenko_pojavilsja-343811/)

<sup>6</sup> [http://www.bbc.co.uk/russian/uk/2012/03/120324\\_gorbuntsov\\_under\\_guard.shtml](http://www.bbc.co.uk/russian/uk/2012/03/120324_gorbuntsov_under_guard.shtml)

<sup>7</sup> [http://www.bbc.co.uk/russian/uk/2013/03/130321\\_perepilichny\\_death\\_london.shtml?ocid=socialflow\\_facebook\\_russian](http://www.bbc.co.uk/russian/uk/2013/03/130321_perepilichny_death_london.shtml?ocid=socialflow_facebook_russian)

<sup>8</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

<sup>9</sup> <http://www.reuters.com/article/2013/03/25/us-britain-russia-berezovsky-postmortem-idUSBRE92O12320130325>

results are deemed as preliminary and full investigation into the cause of Berezovsky's death continues with further results slated not earlier than in January 2014.<sup>10</sup>

## **Arms smuggling**

Although Russia is the world's second largest arms exporter, there are very few public cases where arms smugglers associated with Moscow have been caught in illegal arms deals violating international sanctions and infringing on US or UK national security interests. Reportedly, the Arctic Sea cargo ship that disappeared for almost a month in the summer of 2009 was carrying advanced S-300 anti-aircraft missile systems to Iran. There were media speculations that the ship was prevented from completing its mission by Mossad, the Israeli intelligence service.<sup>11</sup> International media at the time noted several high-profile secretive meetings between the then Prime Minister Putin and top Israeli counterparts before the problem with the ship's return to Russia was resolved.

In November 2011, Viktor Bout was convicted by a jury in a Manhattan federal court of conspiracy to kill US citizens and officials, deliver anti-aircraft missiles and provide aid to a terrorist organization in Columbia. According to a report by Stratfor, an American analytic outfit, Bout is thought to have aided Russia's intelligence agency GRU and he is alleged to have connections to ranking Russian officials, including Igor Sechin, former Russian deputy prime minister and current president of Rosneft (both men deny this allegation).<sup>12</sup> According to a 2002 UN report, Bout's father-in-law, "at one point held a high position in the KGB, perhaps even as high as a deputy chairman."<sup>13</sup> Russian officials have described the case as a conspiracy that involved government collusion with the courts, the American media and even Hollywood.<sup>14</sup>

During the NATO operation in Libya at the time of downfall of Muammar Qaddafi, Russia abstained from sending large quantities of arms to the besieged leader, as the then President Dmitry

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<sup>10</sup> <http://sovsekretno.ru/news/id/1814/>

<sup>11</sup> <http://www.telegraph.co.uk/news/worldnews/europe/russia/6145336/Arctic-Sea-ghost-ship-was-carrying-weapons-to-Iran.html>

<sup>12</sup> <http://www.forbes.com/2009/08/15/victor-bout-kremlin-opinions-contributors-dmitry-sidorov.html>

<sup>13</sup> <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?id=88499&lng=en>

<sup>14</sup> <http://www.nytimes.com/2012/04/07/world/europe/russia-denounces-us-sentencing-of-arms-dealer.html?ref=viktorbout>

Medvedev supported and observed UN sanctions on weapons sales to this country. However, when civil war broke out in Syria in 2011, Russia blocked similar UN sanctions and sent \$1 billion worth of weaponry to the Bashar al-Assad regime in 2011.<sup>15</sup> According to the Stockholm International Peace Research Institute, between 2008 and 2012 Russia supplied 71 percent of Syria's arms imports.<sup>16</sup> In August 2013 Western media reported heightened Russian cargo fleet activity between the Black Sea and Syrian ports, which defense experts believe signifies an increase in arms exports to the Assad regime. In return, Assad's government started using smaller Russian banks to route payments for weapons, making the money harder to trace for Western authorities. The big Russian banks are not keen to work with Assad, fearing the retaliation of US authorities, but in the past few years VTB, VEB and Gazprombank reportedly made money transfers between the two countries.<sup>17</sup>

## **Espionage**

While all major countries spy on each other and espionage activity, despite being criminal at national levels, is de-facto accepted by international media as something unavoidable, relations between Russia and US/UK in this sphere calmed down in the 1990's. However, as recent events vividly show, Russia under Vladimir Putin has seemingly returned to espionage activity at the level of USSR during the Cold War vis-a-vis US and UK. After the aforementioned Litvinenko affair, in 2010 MI5 accused Liberal Democrat MP Mike Hancock and his researcher, 25-year-old Ekaterina Zatuliveter (with whom he had a four-year romantic affair), of spying for Russia. One MI5 agent testified in court that Zatuliveter had passed top-secret information to her SVR handler, known only as "Boris." The special immigration appeals commission that heard Zatuliveter's deportation case in November 2011 rejected MI5's accusation, though it corroborated the grounds for suspecting her of espionage.<sup>18</sup>

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<sup>15</sup> [http://worldnews.nbcnews.com/\\_news/2013/09/12/20448911-analysis-why-putin-is-backing-assads-blood-soaked-syrian-regime](http://worldnews.nbcnews.com/_news/2013/09/12/20448911-analysis-why-putin-is-backing-assads-blood-soaked-syrian-regime)

<sup>16</sup> <http://www.channel4.com/news/syria-russia-weapons-arms-chemical-fighters-missiles>

<sup>17</sup> <http://www.reuters.com/article/2013/08/29/us-syria-crisis-russia-arms-insight-idUSBRE97S0WW20130829>

<sup>18</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

In mid-2010, the US uncovered a network of 10 Russian agents in the US and by July that year exchanged them for four Russian prisoners.<sup>19</sup> The most notable fact about this case was that in addition to traditional spying some of the agents in the US, including Anna Chapman, were reportedly sending open-sourced information and extracting money from their Moscow handlers for fake espionage activity.

Recently, US media reported that the FBI is investigating whether Yury Zaytsev, the US-based director of the Russian government-run cultural exchange program Rossotrudnichestvo, was clandestinely recruiting Americans as possible intelligence assets. For the past 12 years, Rossotrudnichestvo paid for about 130 Americans to visit Russia, including all their expenses like meals, travel, visa fees and lodging. Most of the trips involved about 25 participants, who sometimes stayed in luxury hotels and met with Russian government officials.<sup>20</sup> So far, however, Zaytsev has not been asked to leave the country and officials Washington have not confirmed or denied any of the media reports on the matter.<sup>21</sup>

At the end of October 2013, the Italian press reported that high-level EU delegates to the G-20 summit in St. Petersburg, which took place earlier this year, found that gift-bag devices bearing the red-and-blue “Russia G-20” logo provided as souvenirs to the summit delegates were bugged. German intelligence determined the three-pronged mobile-phone chargers could tap into e-mails, text messages and phone calls and, like the USB thumb drives, were a “poisoned gift” from the summit that was supposed to overcome global corruption among things.<sup>22</sup>

## **Bribery**

In 2011 G-20 countries started developing a global anti-corruption plan. One of the main targets was to decrease corruption in Russia and China and the bribing of foreign corporations working in those

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<sup>19</sup> <http://www.washingtonpost.com/wp-dyn/content/article/2010/07/09/AR2010070901956.html>

<sup>20</sup> [http://www.washingtonpost.com/world/national-security/head-of-dc-based-russian-cultural-center-being-investigated-as-possible-spy/2013/10/23/63a0bb54-3c02-11e3-a94f-b58017bfee6c\\_story.html](http://www.washingtonpost.com/world/national-security/head-of-dc-based-russian-cultural-center-being-investigated-as-possible-spy/2013/10/23/63a0bb54-3c02-11e3-a94f-b58017bfee6c_story.html)

<sup>21</sup> [http://www.gazeta.ru/politics/2013/10/25\\_a\\_5723861.shtml](http://www.gazeta.ru/politics/2013/10/25_a_5723861.shtml)

<sup>22</sup> <http://nypost.com/2013/10/30/russia-used-goof-bag-gadgets-to-bug-g-20-delegates/>

countries.<sup>23</sup> Meanwhile, Russia was rated worst among countries surveyed for the perceived likelihood of paying bribes in Transparency International's 2011 Bribe Payers Index.

In 2010, Daimler Chrysler admitted to failing to comply with the US FCPA (Foreign Corrupt Practices Act) by paying massive bribes in 22 countries over a period of 10 years up to 2008, including paying over 3 million euros in Russia in order to get lucrative supply contracts with Russian government bodies.<sup>24</sup> Interestingly, in the end the company agreed to pay \$185 million in penalties and undergo almost four years of in-house US government monitoring, while authorities in Russia failed to find any culprits despite abundant evidence on bribes to a number of Russian government agencies.<sup>25</sup> The UK has also adopted its Bribery Act<sup>26</sup> but in the last decade there have not been any outstanding public investigations in Russia-related bribery cases.

In 2012, Transparency International changed methodology and number of countries covered in the annual index, but Russia was still the worst among G-20 and shared 133th place with countries like Honduras and Iran.<sup>27</sup> This happened despite the fact that Russia became the 39th state party to the OECD Anti-Bribery Convention in April 2012.<sup>28</sup> So far Russia failed to publish any formal comments on fighting bribes abroad.<sup>29</sup>

### **Criminal or highly questionable oil and gas international activity**

The USSR has been exporting oil and gas in large volumes since 1970's; however, it is only under Putin that profits reached the magnitude of hundreds of billions of dollars a year. In proportion to profits grew the appetite for questionable activity. At the same time there are not so many cases when criminal character of hydrocarbon trade was legally confirmed.

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<sup>23</sup> <http://kavkasia.net/Russia/article/1321512965.php>

<sup>24</sup> [http://www.vedomosti.ru/companies/news/975732/daimler\\_zaplatit\\_185 mln\\_za\\_vzyatochnichestvo](http://www.vedomosti.ru/companies/news/975732/daimler_zaplatit_185 mln_za_vzyatochnichestvo)

<sup>25</sup> [http://www.zr.ru/content/news/546759-justicija\\_ssha\\_postavila\\_tochku\\_v\\_dele\\_o\\_vzatkah\\_daimler/](http://www.zr.ru/content/news/546759-justicija_ssha_postavila_tochku_v_dele_o_vzatkah_daimler/)

<sup>26</sup> <http://www.novayagazeta.ru/politics/6184.html>

<sup>27</sup> [http://slon.ru/economics/uroven\\_korruptsii\\_rossiya\\_v\\_kompanii\\_gondurasa\\_irana\\_i\\_kazakhstan-860273.xhtml](http://slon.ru/economics/uroven_korruptsii_rossiya_v_kompanii_gondurasa_irana_i_kazakhstan-860273.xhtml)

<sup>28</sup> [http://www.oecd.org/daf/anti-bribery/WorkingGrouponBribery\\_2012EnforcementData.pdf](http://www.oecd.org/daf/anti-bribery/WorkingGrouponBribery_2012EnforcementData.pdf)

<sup>29</sup> <http://www.finomenov.ru/finance/52653-transparency-eksport-korruptcii-cvetet-iz-za-krizisa.html>

In 2008 *The Economist* mentioned Gennadiy Timchenko, one of Putin's closest associates and a principal in the leading Russian oil trade company Gunvor, in an article that repeated previously published statements that implied Gunvor's rapid growth was due to Timchenko's old ties to Putin. Both of these parties sued for libel and Timchenko spent huge effort and money to defend his case. *The Economist* had to withdraw the contested material from its website and the lawsuit was settled in July 2009. *The Economist* published the following statement on the matter:

In a section of our special report on Russia entitled "Grease my palm" (29 November 2008) we referred to Gunvor and its co-founder, Gennady Timchenko. We are happy to make it clear that when we referred to the "new corruption" in today's Russia, we did not intend to suggest that either Gunvor or Mr. Timchenko obtained their Russian oil business as a result of payment by them of bribes or like corrupt inducements. Rosneft sells only 30-40 percent of its oil through Gunvor rather than the "bulk" of Rosneft's oil (as we described it). We accept Gunvor's assurances that neither Vladimir Putin nor other senior Russian political figures have any ownership interest in Gunvor.<sup>30</sup>

When Russian opposition leaders Boris Nemtsov and Vladimir Milov wrote a detailed investigation report with open-source references on Timchenko's close connections with Putin, which they argued had helped Timchenko and Gunvor enjoy unprecedented profits (allegations similar to those in *The Economist's* article),<sup>31</sup> Timchenko sued both of them in Moscow court in 2011.<sup>32</sup> The court obliged the opposition leaders to publicly invalidate their allegations, despite abundant evidence.

These two cases have set a precedent for Kremlin insiders – which Timchenko clearly is – and showed that they are ready to spend unlimited effort and money pursuing their perceived enemies in the West through the Western judicial system. Although *The Economist* was extremely strained by this incident it was brave enough not to lose sight of Mr. Timchenko's company and in May 2012 published a carefully worded but extremely critical analysis of the Kremlin's favorite trader. The magazine analyzed Gunvor's Urals oil trading activity and found that the company may have deliberately undermined the integrity of the oil markets' price assessment. The magazine said that its analysis shows that there are only two possible explanations for Gunvor's behavior in this market: either it was being commercial or that it intended to drive down the market price. Gunvor denies that it has manipulated the market. But

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<sup>30</sup> <http://www.economist.com/node/12628030>

<sup>31</sup> <http://www.putin-itogi.ru/putin-corruption-an-independent-white-paper/>

<sup>32</sup> [http://www.gazeta.ru/politics/2011/02/02\\_a\\_3512534.shtml](http://www.gazeta.ru/politics/2011/02/02_a_3512534.shtml)

if the second explanation is true, a benchmark for crude has been distorted and the Russian taxpayers might have seen a lot of money depart to Gunvor's Geneva headquarters office.<sup>33</sup>

By deliberately driving the Platts price down and offering a generous premium, safe in the knowledge that it would still make money when the Platts price recovered. Gunvor could win an open tender for oil from Rosneft and other Urals suppliers. Or Gunvor might have used a lower Platts price to cut its own purchase costs only to sell it on later at the full price, when the market had recovered. The rate of tax on Russia's oil exports is set partly by reference to average oil prices over a month. By lowering the Urals price, Gunvor could thus also have lowered Russia's tax take. Notably, Gunvor has not sued or extensively commented on this revelation of *The Economist*.

In May 2013 it became known that a subsidiary of Gunvor Group Ltd., the independent energy trader, was served a subpoena by the US attorney's office in April 2011 for documents relating to its oil-trading activities. Castor Americas Inc., a Delaware-incorporated member of the group, and three of its staff received subpoenas, Gunvor said in a preliminary bond prospectus obtained by a US media outlet. A Gunvor employee was also served.<sup>34</sup> Since then the results of the investigation has not been published and presumably remain under investigation.

Another interesting Russia-related oil company that has been even more widely covered than Gunvor in international media is TNK-BP, the Russian subsidiary of BP. It is noteworthy that BP has both large UK and US based shareholders, thus the company's problems in Russia affected both countries. The events of the internal corporate conflict within this company in 2008-2009 have been examined in detail.<sup>35</sup> For the purposes of this article it is necessary to mention that many media outlets argued at the time that TNK-BP experienced multiple assaults from various Russian authorities (security, tax, labour, immigration, environmental services) because Russian shareholders in the company, namely Mikhail Fridman, German Khan, Viktor Vekselberg and Len Blavatnik, with the informal backing from Kremlin,

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<sup>33</sup> <http://www.economist.com/node/21554185>

<sup>34</sup> <http://www.bloomberg.com/news/2013-05-20/gunvor-unit-s-oil-trading-activities-under-investigation-in-u-s-.html>

<sup>35</sup> This is one of the most detailed accounts of the conflict that got almost all details right: <http://www.risk.net/energy-risk/feature/2253578/tknbp-saga-raises-questions-about-bps-handling-of-political-risk>

sought to gain control of the company's operations and financial flows. The conflict climaxed during the summer of 2008 when Russian oligarchs turned up the heat on Robert Dudley, a US citizen and the then CEO of TNK-BP, accusing him of breaching his duties and warning they may seek damages running into hundreds of millions of pounds for the alleged mismanagement of the company.<sup>36</sup> Dudley had to escape to an undisclosed location in Europe to a makeshift headquarters to operate the company and for a short period of time BP was on the verge of taking the unprecedented step of threatening to sequester the oligarchs' assets in the West, including Khan and Blavatnik's palatial London homes.<sup>37</sup> By autumn 2008 Dudley was forced to surrender the CEO position to Mikhail Fridman and in 2012 BP, no longer capable to withstand pressure from Russian oligarchs, was happy to cash out of the partnership.

Another widely covered case is the story of destruction of Yukos, Mikhail Khodorkovsky's oil company, by the Russian state and Rosneft and the ongoing battle around its assets outside Russia since 2003. As far as our study is concerned it is worth mentioning that former Yukos management has by now won several key courts procedures in Europe and US which forced Rosneft to acknowledge rights for certain key assets outside of Russian jurisdiction. The latest news of this kind came on 17 October 2013, when a New York federal court obliged Rosneft's subsidiary Samaraneftgaz to pay \$185.9 million in compensation to the Luxembourg-based Yukos Capital, which is under the control of former Yukos managers.<sup>38</sup>

However, there is a much less discussed fact about aspects of Yukos's international exposure that did not receive coverage in Western press. In 2007 the international auditing company PricewaterhouseCoopers (PwC) revoked its annual audit reports for Yukos for years 1996-2004. This happened at the time when Yukos was under full-blown attack by the Russian state and PwC's branch in Russia itself was under court procedures in Moscow on the alleged tax evasion and illegal contracts with Yukos.<sup>39</sup> At the time Western and Russian experts suggested that even during the collapse of the US

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<sup>36</sup> <http://www.telegraph.co.uk/finance/newsbysector/energy/2793739/Russians-issue-legal-threat-to-TNK-BPs-Robert-Dudley.html>

<sup>37</sup> <http://www.thisismoney.co.uk/money/markets/article-1637926/BP-threat-to-snatch-homes-of-oligarchs.html#ixzz2jk9E3Kp7>

<sup>38</sup> [http://tvrain.ru/articles/yukos\\_capital\\_otsudil\\_u\\_rosnefti\\_186\\_millionov\\_dollarov-354744](http://tvrain.ru/articles/yukos_capital_otsudil_u_rosnefti_186_millionov_dollarov-354744)

<sup>39</sup> <http://www.kommersant.ru/doc/777543>

energy giant Enron in 2001-2002, auditors from Arthur Andersen did not revoke their audits on the company. Western management of the PwC distanced itself from its Russian subsidiary's position on the issue of Yukos, reportedly arguing that recall of 1996-2004 audits was done under pressure from judicial authorities in Russia.<sup>40</sup> While by the end of 2009 PwC happily settled all tax claims and other judicial issues with the Russian state and kept its license, the question of its Yukos audits was by and large forgotten.<sup>41</sup>

There are numerous media accounts of Gazprom's legally questionable financial and lobbying activity in Europe,<sup>42</sup> and the monopoly ranked among the most non-transparent international companies according to a survey posted by Transparency International in mid-2012.<sup>43</sup> At the same time Gazprom's questionable activities do not seem to have reached the UK or US in any significant proportion. In early 2006, it was rumored that Gazprom was seeking a takeover of Centrica, the UK's major utility company. This created controversy in the British media, while the Department for Trade and Industry stated any deal would be subject to "intense scrutiny." Although the then prime minister did not publicly object to the deal, the takeover did not take place. Last year rumors about Gazprom's interest in Centrica resurfaced,<sup>44</sup> but in the end this did not come to any fruition either.

The European Commission's investigation into Gazprom in 2012 provides the most recent exposure of Gazprom's monopolistic practices in European countries (and thus UK and US allies). In a statement, the commission said it suspected Gazprom of constraining competition in three ways: hindering the free flow of gas across EU member states; preventing countries from diversifying their gas supplies; and imposing unfair prices on its customers by insisting in contracts that the price of its gas be

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<sup>40</sup> <http://www.newsru.com/finance/25jun2007/audit.html>

<sup>41</sup> <http://www.kommersant.ru/doc/1389816>

<sup>42</sup> See section "Documented examples of financial ties" at [http://en.wikipedia.org/wiki/Russia\\_in\\_the\\_European\\_energy\\_sector](http://en.wikipedia.org/wiki/Russia_in_the_European_energy_sector) or see <http://www.bloomberg.com/news/2011-12-01/gazprom-not-involved-in-croatian-corruption-case-official-says.html>

<sup>43</sup> <http://en.ria.ru/business/20120710/174519090.html>

<sup>44</sup> <http://www.thisismoney.co.uk/money/markets/article-2205670/MARKET-REPORT-Gazprom-eyes-bid-Centrica.html>

linked to oil prices.<sup>45</sup> In early October 2013, EU regulators announced that they are moving closer to charging Gazprom with abusing its dominant position in eight Central and Eastern European countries. Industry sources suggested that this could lead to a fine of up to \$15 billion that could come as soon as the end of 2013.<sup>46</sup>

### **Other criminal or highly questionable activity**

Russian organized crime and individual criminals are often cited in Western media for all sorts of criminal activity that affects the OECD countries: money laundering, drug and human trafficking, racketeering, pornography, internet fraud and other illegal practices. In June 2013, a New York federal court declined an appeal from Russian pilot Konstantin Yaroshenko, who has been sentenced to 20 years in prison for an attempt to smuggle a large shipment of drugs into US.<sup>47</sup> The Russian Foreign Affairs Ministry defends Yaroshenko vigorously along the lines of the Viktor Bout defense, arguing that both cases are politically charged and suggesting that Russia would go as far as using the Council of Europe's 1983 Convention on the Transfer of Sentenced Persons to ask the US to hand over Yaroshenko.<sup>48</sup>

The most recent case of Russian criminal activity is from 30 October when the US Treasury designated Russia-based associates of "Key Brothers' Circle" members, famously including Grigory Lepsveridze. The US Treasury banned Lepsveridze (also known to Russians as the singer Leps, reportedly one of the most favorite performers of Vladimir Putin and his officially nominated "trusted supporter" at recent elections) from entering the country on charges of transporting money on behalf of Russian organized crime.<sup>49</sup> The fact that Leps has support at the highest levels of Russian power was indirectly confirmed by energetic demands of the Russian Foreign Ministry to the US State Department to clarify charges to the singer.

Interestingly, this case is reminiscent of that of the well-connected singer Joseph Kobzon, who is currently member of the Russian parliament. In 1995, Kobzon was denied entry to the US due to alleged

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<sup>45</sup> <http://online.wsj.com/news/articles/SB10000872396390443847404577631470377945202>

<sup>46</sup> <http://www.reuters.com/article/2013/10/03/us-eu-gazprom-idUSBRE9920DV20131003>

<sup>47</sup> [http://www.gazeta.ru/social/news/2013/06/11/n\\_2965513.shtml](http://www.gazeta.ru/social/news/2013/06/11/n_2965513.shtml)

<sup>48</sup> <http://rt.com/politics/yaroshenko-convention-handover-russia-523/>

<sup>49</sup> <http://www.treasury.gov/press-center/press-releases/Pages/jl2196.aspx>

mafia connections. Vigorous challenging of the visa denial by Kobzon's supporters was impossible since US consular decisions are not subject to judicial review. In 2012, Kobzon's promoter organized a petition signed by 4,000 Russian-Americans to the then Secretary of State Hillary Clinton.<sup>50</sup> The case differs with that of Leps' in that Kobzon faces no formal accusations and no investigation results or evidence to support the visa denial was published by the American authorities, nor has such information been released to Kobzon himself.

It is impossible to list all well-known Russia-related criminals and types of their activity in the limits of this article. However, a notable trend should be noted in this arena: anonymous Russian web-sites in English, registered and hosted in the West, are being increasingly used to expose alleged criminal activity about certain Russian individuals in order to impact their reputation in US and UK. Sites like Rumafia.com are replicating usage of similar sites in Russia (like compromat.ru) or internet tabloids like *Lifenews* that have been ruining reputations of businessmen and officials in Russia, often citing anonymous or unverifiable sources. Essentially, since 2010 Rumafia has been a bi-lingual (Russian-English) elaborate account on organized crime cobweb of Russian government officials and oligarchs' and their worldwide connections, all drawn and explained in finest details, but without any contacts or authors and often no means to verify published information.

Interestingly, in May 2013 the latest source of this kind, anonymous "Institute for Russian Research," web-hosted in the US, went as far as to publish a specific list of 48 Russian criminals, with the purpose of sending it to US congressmen, local FBI and US police agents, according to the site's "press-release."<sup>51</sup> The site has ranked businessmen and officials as a pack of cards, going from aces to twos.<sup>52</sup>

Besides listing cases of well-publicized figures like Viktor Bout, these web-sites very often publish very detailed accounts of relatively unknown figures with amazing level of insider detail and knowledge, suggesting that it comes from competitors, enemies or at least determined researchers who are clearly aggressively disposed towards their subjects. At the same time, it should be mentioned that

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<sup>50</sup> <http://www.themoscowtimes.com/news/article/singer-kobzon-denied-us-visa-for-farewell-tour/457531.html>

<sup>51</sup> <http://www.newsru.com/crime/13may2013/rusmafia48cards.html#1>

<sup>52</sup> <http://russianmafia48cards.com>

this kind of blackmailing and reputational attack is no longer bounded to anonymous web sources or tabloid reports. When in June 2013, Russian Minister of Railways Vladimir Yakunin went through a threat of dismissal by Prime Minister Medvedev, anonymous commentators of the situation suggested that Scotland Yard might soon publish materials about alleged homicide case that one of Yakunin's sons was allegedly part of.<sup>53</sup> Thus, what we witness is not only export of criminal or questionable practices from Russia to the West, but also export of media blackmailing and so-called "black PR" practices to undermine the reputation of Russian figures abroad.

## **Chapter 2. Export of highly questionable practices**

### **Manipulation in international organizations**

The Soviet Union had a long history of vote rigging and other forms of decision-making manipulation in international political bodies and global cultural and sport organizations. This manipulation could extend from mere block voting together with allies and friends in those organizations to undercover bribery and clandestine operations by KGB, like some famous cases in FIDE, international chess body.<sup>54</sup>

In this respect, Russia's experience under Vladimir Putin does not differ qualitatively from the USSR era. The UN Security Council, General Assembly and its affiliate bodies, like the UNFCCC, have all witnessed block voting and Russian political and behind-the-scenes manipulation. Even such cultural and environmental bodies as UNESCO have not been spared. In June 2013, for example, the Russian NGO *Environmental Watch on North Caucasus* lamented that, "politics prevails over environmental protection at the 37th session of the UNESCO World Heritage Committee: the committee was silent about destructive construction of Lunnaya Polyana, a ski resort for Vladimir Putin, and a road to this resort."<sup>55</sup> This happened despite abundant evidence of environmental damage submitted on this case;

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<sup>53</sup> <http://www.znak.com/urfo/news/2013-06-20/1007452.html>

<sup>54</sup> <http://www.barnesandnoble.com/w/kgb-plays-chess-yuri-felshtinsky/1103376614>

<sup>55</sup> <https://www.facebook.com/pages/Environmental-Watch-on-North-Caucasus/347791944433>

since then the NGO has been prosecuted by Russian security forces and its activity was virtually banned without any comment from UNESCO.<sup>56</sup>

International institutions and events are abused by the Russian regime not only through manipulation but also through gross overspending. The Russian opposition famously wrote a report that upcoming Sochi Olympics cost over \$50 billion and are more expensive than all previous Olympic games combined.<sup>57</sup> Russian opposition media has recently publicized calculations of a blogger on costs that different member countries had spent on Asia-Pacific Economic Cooperation summits: Singapore spent \$72 million in 2009; Japan, \$277 million in 2010; the US, \$28 million in 2011; and Indonesia, \$630 million in 2013.<sup>58</sup> Russia hosted the summit in several locations in one of the most deserted areas near and in Vladivostok and spent unprecedented \$20 billion – 800 times higher than the prior host and 32 times higher than the host after it. By participating in these events and not criticizing such gross overspending, Western countries legitimize interior financial corruption in Russia.

Over the last decade Russia has paid out its international loans and gained much more power at the IMF and World Bank, where it now impacts loans and credit lines to developing countries, an area where it has often been cited as highly corrupt and opaque. For example, in the last five years the Russian Ministry of Finance has been widely accused of making shady deals on former soviet loans with Angola, Libya and many other countries. International media has accused Vladimir Putin of manipulating vote on the choice of the place for 2014 Olympics in Sochi and in FIFA on the choice of 2018 World Cup in Russia.<sup>59</sup>

While the above cases, in our view, present a more or less traditional Soviet style manipulation, there is one international organization where Russia has developed new approaches and new collaborators, namely in the Council of Europe and its Parliamentary Assembly (PACE). Unlike the EU, the Council of Europe cannot make binding laws and PACE is composed of MPs from parliaments of

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<sup>56</sup> <http://ewnc.org/node/12762>

<sup>57</sup> <http://www.putin-itogi.ru/winter-olympics-in-the-subtropics/>

<sup>58</sup> <http://gloriel.livejournal.com/307202.html>

<sup>59</sup> <http://www.telegraph.co.uk/sport/football/international/8535640/Fifa-corruption-and-bribery-allegations-a-timeline.html>

many states in the western part of the Eurasian continent (with observers from most Western countries), however, its impact on the EU and thus on UK should not be underestimated. Important statutory functions of the PACE are the election of the Secretary General of the Council of Europe, the judges of the European Court of Human Rights and the members of the European Committee for the Prevention of Torture.

Both under the former Labour and current coalition government, UK MPs in the Council of Europe collaborated in different forms with Russian representatives. For example, in October 2012, five Tory MPs (Brian Binley, James Clappison, Edward Leigh, Ian Liddell-Grainger and Robert Walter), two Tory peers (the Baronesses Eaton and Eccles) and one Lib Dem (Mike Hancock) voted with representatives of Putin's party against a report criticizing human rights abuses in Russia.<sup>60</sup> In 2013, a huge scandal broke out in the UK, when a group of Tory party members called "Conservative Friends of Russia" (CFoR) were exposed to have links with Sergei Nalobin, a first secretary at the embassy in London (and likely Russian intelligence officer) since 2011. Nalobin reportedly wrote to the mediator from the CFoR at the time that, "we've received instructions from Moscow to discuss the perspective of cooperation between British conservatives and United Russia in the parliamentary assembly of the Council of Europe." The diplomat also sought to have the British Conservative Party officially registered as a "sister" party to United Russia, which would make the latter eligible to send representatives to the annual Conservative Party conference.<sup>61</sup>

Although the CFoR was later disbanded due to political outcry over ties with the Russian embassy (only to be replaced by a similar organization under the name *Westminster Russia Forum*), in many important aspects Russian influence on key aspects of the British delegation voting patterns in the PACE prevailed. For example, when human rights issues is mentioned in Russia or Azerbaijan, PACE delegates from these two countries always vote against critical resolutions and are often joined by the majority of UK delegates along with few other national delegations. Thus, in early 2013, European Stability Initiative (ESI), Europe's think

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<sup>60</sup> <http://www.independent.co.uk/voices/comment/vladimir-putin-must-find-it-hilarious-that-david-cameron-wont-back-europe-on-russias-abuses-8209646.html>

<sup>61</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

tank for Southeast Europe, published a critical account of the January 2013 debate and voting at PACE on two reports on resolution on Azerbaijan.

As the account suggests, the vote was historic as PACE rapporteur Christoph Straesser's resolution on political prisoners in Azerbaijan was defeated – 125 votes against 79 votes, with 20 abstentions – sending a very strong signal of support to the authoritarian regime in Baku. The ESI shows that representatives of Azerbaijani President Ilham Aliyev's regime had long waged a campaign against Straesser, who was appointed as rapporteur in March 2009. The 23 January 2013 vote was remarkable in terms of who voted with Azerbaijan and who voted with Straesser. All 18 Russian members were present and sided with Azerbaijan. So did 10 Turks, 9 Spaniards, 9 Italians and a majority of members from the United Kingdom (7), Ukraine (7) and France (7). Head of the UK delegation to PACE, Robert Walter from Tory party, abused the debate by accusing Straesser of not visiting Azerbaijan, ignoring the fact that he could not get a visa for three years due to the Azerbaijani authorities' deliberate refusal due to his human rights reporting. Outrageously, Walter dismissed Straesser's report on the ground that "he based his report on blogs, non-governmental organization reports and hearsay."<sup>62</sup> The Azerbaijani and Russian press happily picked up and supported these lines, suggesting that their representatives shared them.<sup>63</sup>

During recent presidential elections in Azerbaijan Walter became Head of the PACE delegation of international observers.<sup>64</sup> After being in Baku for just a few days during and after the election Walter along with Pino Arlacchi, an Italian colleague from European Parliament, presented positive conclusions about democratic process at the election at a press conference in Baku's Hyatt Regency Hotel. In a press conference held in the same hotel less than two hours after the one organized by Pino Arlacchi and Robert Walter, the Office for Democratic Institutions and Human Rights (ODIHR) of the Organization for Security and Co-operation in Europe (OSCE) presented a starkly different assessment. ODIHR observers found that "significant problems were observed throughout all stages of election day," and that, "a restrictive media environment marred the campaign." It also found that vote counting was, "assessed in overwhelmingly negative terms." These revealed the serious shortcomings that need to be addressed in order for Azerbaijan to fully meet its

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<sup>62</sup> [http://www.esiweb.org/pdf/esi\\_document\\_id\\_136.pdf](http://www.esiweb.org/pdf/esi_document_id_136.pdf)

<sup>63</sup> <http://www.contact.az/docs/2013/Politics/012300025756en.htm#.UnnfHVlo7IU>; [http://www.ng.ru/cis/2013-01-25/7\\_baku.html?insidedoc](http://www.ng.ru/cis/2013-01-25/7_baku.html?insidedoc)

<sup>64</sup> <http://en.apa.az/news/195496>

OSCE commitments for genuine and democratic elections. The ESI's report then shows detailed account how Walter and other supporters of Ilham Aliyev's fair victory tried to aggressively block and dilute the ODIHR's assessment.<sup>65</sup> In both reports the ESI alleges that Walter has been a frequent visitor to Azerbaijan focusing primarily on the promotion of business ties between Baku and London.

As for the OSCE, US and UK debating and voting track-record in regard to human rights and democratic progress in Russia has not been admirable either. In June 2013, the Permanent Committee of the Parliamentary Assembly of the OSCE decided not to include a review of the resolution "on human rights in Russia" (which draft included criticism of Russia's laws on public protest, NGOs, Russian orphans' adoption by US families and criminal cases of Sergey Magnitsky and Mikhail Khodorkovsky). Long-time dissident and head of the Moscow Helsinki group, Ludmila Alekseyeva, suggested that the Russian delegation scared and pushed other delegations to drop the resolution.<sup>66</sup> Alexander Sidyakin, the Duma deputy present at the assembly, praised this as a Russian victory and argued that the resolution was dropped because Russia has many friends among the delegates. He also suggested that the resolution would be constantly delayed and even if it gets adopted its text would be much milder.<sup>67</sup> Notably, Sidyakin has been right so far. In addition, in late October 2013, as a response to the ODIHR's report on elections to Azerbaijan, Russian Foreign Affairs Minister Sergei Lavrov openly announced that Russia, Belarus, Azerbaijan and other Russian allies in CIS are coordinating their foreign policy toward the OSCE, its role in electoral process and even the framework of the organization itself.<sup>68</sup>

## **Abuse of Western financial systems**

At the end of 2012, The Financial Stability Board (FSB) argued that global shadow banking industry has grown to about \$67 trillion, \$6 trillion bigger than previously thought, leading G-20 and other global leaders to seek more oversight of financial transactions that fall outside traditional oversight.<sup>69</sup> The FSB is chaired by Mark Carney, governor of the Bank of England, and has been established to coordinate at the

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<sup>65</sup> [http://www.esiweb.org/pdf/esi\\_document\\_id\\_145.pdf](http://www.esiweb.org/pdf/esi_document_id_145.pdf)

<sup>66</sup> <http://grani.ru/Politics/Russia/m.216247.html>

<sup>67</sup> [http://www.gazeta.ru/politics/2013/06/29\\_a\\_5401053.shtml](http://www.gazeta.ru/politics/2013/06/29_a_5401053.shtml)

<sup>68</sup> <http://commonsense.eu/rus/news/6/id2811>

<sup>69</sup> <http://www.businessweek.com/news/2012-11-18/shadow-banking-grows-to-67-trillion-industry-regulators-say>

international level the work of national financial authorities, including Russia, to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

The FSB's task is difficult when it faces Russia. While in the US about a third of national GDP is held by around 3 million people, in Russia income inequality reached levels of unprecedented proportions. Under Putin wealth disparity has soared with 35% of the country's entire wealth now in the hands of just 110 people. According to Credit Suisse's latest annual global wealth report "Russia has the highest level of wealth inequality in the world, apart from small Caribbean nations with resident billionaires."<sup>70</sup>

Dealing with extremely wealthy and powerful Russian tycoons and officials appears to be beyond scope of US and UK financial institutions. In December 2011, *Barron's* published a set of detailed documents that show a trail of financial transactions from between Russian billionaires and Deputy Prime Minister Shuvalov that have been seen by international media as a potential bribe.<sup>71</sup> The main twist in this story is that Eugene Shvidler (an American citizen and deputy of the powerful billionaire Roman Abramovich) appears to have given a \$50 million bribe to Igor Shuvalov in 2005 when Shuvalov was a high-level government official. Shuvalov then lent it to Alisher Usmanov (a big Russian investor in UK and US) and ended up with a \$100 million windfall hardly unexplainable in commercial logic. Shuvalov then used his government position to benefit Abramovich and Usmanov with several high-profile government actions. Subsequently, Shuvalov hid the wealth by pretending he was renting the houses he bought with the money. Aleksei Navalny, Russia's most prominent anticorruption activist, argued that if this story is found true by US and UK courts, these transactions are a flagrant violation of the FCPA and UK Bribe Act. In March 2012, Navalny added to the pressure on the Russian government to investigate allegations of what he called corrupt financial practices by a senior deputy of Prime Minister Vladimir Putin.<sup>72</sup>

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<sup>70</sup> <http://blogs.wsj.com/emergingEurope/2013/10/09/who-wants-to-be-a-russian-billionaire/?KEYWORDS=who+wants+to+be+a+russian+billionaire>

<sup>71</sup> [http://online.barrons.com/article/SB50001424052748703827804577056191874119450.html#articleTabs\\_article%3D1](http://online.barrons.com/article/SB50001424052748703827804577056191874119450.html#articleTabs_article%3D1)

<sup>72</sup> [http://www.nytimes.com/2012/03/31/world/europe/navalny-presses-for-inquiry-into-putin-deputy.html?\\_r=0](http://www.nytimes.com/2012/03/31/world/europe/navalny-presses-for-inquiry-into-putin-deputy.html?_r=0)

Along with many other opposition leaders, he also called for an investigation by US and UK authorities. In Washington, a Congressional staff member familiar with the case said documents relating to Mr. Shuvalov's transactions were supplied to the Department of Justice in 2011, and also forwarded to various Congressional oversight committees. Although Shuvalov, Abramovich and Usmanov have not brought a libel case against the documents, nor public investigation or trial by US and UK authorities – so far the high-level connections of Shuvalov and other tycoons to Putin seem to be making them untouchable to FCPA and UK Bribe Act.

In contrast, Putin's regime is successfully using international financial mechanisms to keep tycoons and many potential dissenters at bay through employment of Russia's financial intelligence unit, Rosfinmonitoring. This unit is under the direct control of the president and run by Viktor Zubkov, a loyal subordinate of Putin for over a decade. Notably, Rosfinmonitoring, and the laws criminalizing money laundering (Russian Federal Law No. 115-FZ), were established on the recommendation of US, UK and other European powers, who sought to institutionalize a global anti-money laundering regime in the 1990's and early 2000's. As Andrew S. Bowden from *The Atlantic* points out, "this push was led by the Financial Action Task Force (FATF), a Paris based organization that sets rules and recommendations for countries to combat money laundering."<sup>73</sup>

William Partlett of Columbia University and other institutions says that on paper, Russia is an international leader in fighting money-laundering activities, especially in FATF.<sup>74</sup> According to his research, in 2008, Russia was rated by the FATF as having one of the most exemplary financial intelligence units in the world. In practice, however, Russia's prominent role in anti-money-laundering regulation has not curbed corrupt practices. In contrast, unlike US, where international formulation of soft law norms from the FATF are subject to strong checks and balances that contain the inexorable expansion of anti-money-laundering regulation, Russia used the FATF's broadly formulated norms to establish financial intelligence units with vast financial surveillance powers that are used by Putin's loyal subordinates in these units to prosecute dissenters on legal grounds. In other articles, Partlett argues

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<sup>73</sup> <http://m.theatlantic.com/international/archive/2013/07/how-putin-uses-money-laundering-charges-to-control-his-opponents/277903/>

<sup>74</sup> [http://www.reeec.illinois.edu/events/documents/Partlett\\_Abstract.pdf](http://www.reeec.illinois.edu/events/documents/Partlett_Abstract.pdf)

that Rosfinmonitoring is simply one of the many legal instruments of a newly created “lawfare” Russian state that Putin uses against his opponents in order to hide political motives behind the façade of legality.<sup>75</sup> Strong legal institutions are simply a means to an end – a tool for ensuring that Putin could punish those who did not comply with his informal rules of the game through selective prosecution.<sup>76</sup>

In contrast, UK anti-money-laundering authorities seem to be quite negligent about certain shady transactions that Rosfinmonitoring allows to be carried out of Russia to UK via third countries. At least that was the case when in August 2012, a joint investigation by Russian *Novaya Gazeta*, *Barron’s* and the not-for-profit Organized Crime and Corruption Reporting Project (OCCRP) uncovered massive money-laundering scheme in the Magnitsky case, that among other participants, included Nomirex, a UK-registered shell company owned in Cyprus.<sup>77</sup> Nomirex received money stolen from the Russian state (as part of back tax claims to Hermitage Capital Fund subsidiaries in Russia) from Russia via Moldova and then forwarded to a Swiss account of a BVI registered firm in Credit Suisse bank (this money was later partly used by some of the fraudulent participants of the case to buy luxurious real estate in Dubai). Another investigation by the BBC’s Panorama found that \$365 million was transferred through Nomirex’s Latvian bank account between 2007 and 2009.<sup>78</sup> Another flow of money laundering in this case went via Moldova and Switzerland to a US account of a US registered firm, controlled by the Katsyv family. Petr Katsyv is a former minister of transport of the Moscow region and together with his son, is believed to be one of the beneficiaries of the money-laundering scheme. The Katsyv family owns more than \$17 million in New York real estate alone despite a new US law that says those who benefited from the Magnitsky case cannot enter the country and recently US authorities started an investigation about the origins of this property.<sup>79</sup>

The desire not to antagonize Russian authorities, and those close to them, financially seems to be pervasive even among most powerful and crime savvy Western institutions like HSBC bank. In March

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<sup>75</sup> <http://nationalinterest.org/article/putins-artful-jurisprudence-7882>

<sup>76</sup> <http://www.brookings.edu/research/opinions/2012/02/28-putin-law-partlett>

<sup>77</sup> <http://www.novayagazeta.ru/inquests/53950.html>

<sup>78</sup> <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10024015/UK-companies-accused-of-money-laundering-in-Magnitsky-probe.html>

<sup>79</sup> <http://www.reportingproject.net/proxy/en/following-the-magnitsky-money>

2013, Russian media suggested that the bank could have closed Russia-based investment subsidiary of Hermitage Capital as it was hoping to distance itself away from the Magnitsky case and remain one of the Russian government's official consultants on its ongoing privatization program.<sup>80</sup>

US financial majors, like TD Ameritrade, are ready to let down Russian counterparts in financial circles only if there is direct threat to their interests on US soil, as was allegedly the case in September 2012 when the brokerage got upset with Russian "grey financial schemes and manipulation" and close access to New York Stock Exchange to Russian investors (but even that was done without any publicity or formal acknowledgement).<sup>81</sup>

### **UK Courts' tourism, legal blackmail and revelations**

Export of Russian corruption is probably most visible in the way Russian state officials and tycoons increasingly use and manipulate the UK court system.

In October 2013, after 14 months of procedures, Britain's High Court threw out a libel suit by a former Russian Interior Ministry investigator over accusations that he was involved in the death of whistleblowing lawyer Sergei Magnitsky. The ex-policeman had sought to sue Magnitsky's former boss, William Browder, the US-born British chief executive of the Hermitage Capital investment fund, which was the focus of the alleged embezzlement scam.<sup>82</sup> In order to carry out legal procedures in London, Karpov who used to get an equivalent of \$500 monthly salary when he was at the ministry, hired some of the best and most expensive lawyers in London and a PR agency to cleanse his reputation. When asked about sources of these payments he cited sponsorship from friends, his wealthy mother, a side job as an interior designer and a loan from a bank taken under guarantees of a friend.<sup>83</sup> However, this court was not cost free to Karpov's counterparts who had to waste considerable money and time for the procedures and in the end were also told by the judge that, "the defendants are not in a position to

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<sup>80</sup> [http://www.vedomosti.ru/finance/news/10457421/hsbc\\_zakryvaet\\_hermitage#ixzz2hr3ttbUq](http://www.vedomosti.ru/finance/news/10457421/hsbc_zakryvaet_hermitage#ixzz2hr3ttbUq)

<sup>81</sup> <http://www.gazeta.ru/financial/2012/09/24/4785545.shtml>

<sup>82</sup> [http://www.google.com/hostednews/afp/article/ALeqM5jgZii4QyUtn\\_gd2i0p2\\_qFV8n2DQ?docId=f256d296-b504-444b-905c-756a1e458891](http://www.google.com/hostednews/afp/article/ALeqM5jgZii4QyUtn_gd2i0p2_qFV8n2DQ?docId=f256d296-b504-444b-905c-756a1e458891)

<sup>83</sup> <http://www.novayagazeta.ru/inquests/60472.html>

justify the allegations that he [Karpov] caused, or was party to, the torture and death of Sergei Magnitsky, or would continue to commit, or be party to, covering up crimes.”<sup>84</sup>

In September 2009 *The Sunday Times* erroneously stated that Elena Baturina bought Witanhurst, a large house in Highgate, North London, via an offshore front company. In response Baturina sued the paper’s owners. Times Newspapers apologized for the story and paid damages to her in October 2011.<sup>85</sup> However, in 2010 Russian opposition published a 37-page report on alleged corruption of Baturina, during the tenure of her husband Yuri Luzhkov as mayor of Moscow, which listed numerous facts of her alleged criminal activity.<sup>86</sup> She sued the authors of the report only on few facts in court in Moscow, and while she won the case, many questions on the origins of her multi-million dollar wealth and luxurious lifestyle in London remain.

Given their virtually unlimited financial resources, Russian tycoons and corporations like to use UK arbitrage and criminal courts in order to settle scores with each other, attack and/or defend against any possible enemies both of Russian or Western origin. In 2011-2012, the UK High Court reviewed a stream of counter suits and appeals from the tycoon of German Khan and TNK-BP oil company management from Moscow, controlled by him, and Igor Lazurenko, Khan’s former subordinate, VP on TNK-BP logistics. After Lazurenko escaped to London, he accused Khan of multi-million dollar bribes to Russian government officials, in retaliation (as the media saw it at the time) TNK-BP accused Lazurenko of massive fraud, which he allegedly admitted to while still in Russia. Media reports claim that Khan sought to destroy Lazurenko through high fees and tide of suits in London. In December 2012, High Court judge ruled a decision in favor of Lazurenko, by confirming that he may have confessed to fraud in Russia out of fear from threats to him and his family during a meeting in the office of German Khan in Moscow.<sup>87</sup> However, the procedures in this case are ongoing and victory of Lazurenko is far from certain.

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<sup>84</sup> <http://www.bailii.org/ew/cases/EWHC/QB/2013/3071.html>

<sup>85</sup> <http://www.theguardian.com/media/2011/oct/17/russia-richest-woman-sunday-times>

<sup>86</sup> <http://www.rusolidarnost.ru/files/luzhkov-itogi/Luzhkov-Itogi-2.pdf>

<sup>87</sup> <http://www.reuters.com/article/2012/12/04/us-tnk-bp-lazurenko-court-idUSBRE8B30XS20121204>

Since 2005, London witnessed a number of high profile cases between Russian tycoons (Deripaska vs Nazarov, Deripaska vs Chernoy, Berezovsky vs Abramovich) and divorces (Vladimir Slutsker vs Olga Slutsker).<sup>88</sup> The number of cases is so high that reportedly up to a third of the revenue of London's legal firms originates from such cases, and the mayor of London publicly encourages Russian tycoons at industry conferences to bring in their arbitration and divorce cases to London.<sup>89</sup> Many of these cases bring to the surface ugly facts of abuse by Russian authorities and day-to-day business operations, some of which are clearly of the outright criminal character. For instance, in a 2008 case, Abramovich admitted that he paid billions of dollars for political favors and protection fees to obtain a big share of Russia's oil and aluminum assets as was shown by court papers obtained by *The Times*.<sup>90</sup>

During the case against Berezovsky, Abramovich alleged that, along with the help of Russian authorities, he and Berezovsky carried out economic activity in such a way that Russian media asked – why do not UK judges arrest Abramovich in the court after admitting such things? The media lamented that if only Russian prosecutors followed Russian law they would arrest Abramovich upon his return to Moscow.<sup>91</sup> Indeed, a lack of reaction by the UK High Court to revelations that Russian tycoons make in public can be seen as undermining the very meaning of law and its universal application. Public opinion is constantly reminded through such cases about criminal or highly questionable nature of some of the Russian billionaires and their corporations but at the same time sees that UK authorities prefer not to do anything about that and simply pretend that this is a purely Russian question out of UK legal jurisdiction or even moral right to interfere.

Notably, a new high-profile case of this sort is continuing in the High Court in London: Vitaly Arkhangelsky, a refugee banker from St. Petersburg, now living in France, is suing a private bank in St. Petersburg and its financier Alexander Savelyev. Arkhangelsky claims that Savelyev with the help of the then Governor of St. Petersburg Valentina Matveyenko (now head of the Russian Council of the Federation) raided his business. Another famous Russian political refugee Sergey Guriev, an economist

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<sup>88</sup> <http://kommersant.ru/doc/2071466>

<sup>89</sup> <http://kommersant.ru/doc/2071489>

<sup>90</sup> <http://www.timesonline.co.uk/tol/news/world/europe/article4272509.ece>

<sup>91</sup> <http://www.novayagazeta.ru/politics/54223.html>

who also found asylum in Paris, has recently agreed to act as a financial expert on the side of Arkhangelsky.<sup>92</sup> It will be interesting to see how UK Court deals with allegations against Matveyenko, now formally a third most powerful person in Russian hierarchy.

### **Misapplication of the Interpol mechanism**

Related to the issue of manipulation of international organizations and abuse of legal norms at global level, is Russia's misuse of Interpol. Soviet dissident, contemporary opposition figure and analyst Alexander Podrabinek notes that Interpol has a history of honoring the Kremlin's politically motivated requests.<sup>93</sup> Russian authorities have managed on several occasions to involve the international criminal police in persecuting their political opponents or victims of state abuse. Interpol has honored Moscow's search warrants for Vladimir Gusinsky, Leonid Nevzlin, Akhmed Zakayev, Boris Berezovsky and Yuli Dubov.

In a few instances, the initial placement on Interpol watch list resulted in de-facto refusal by US and UK authorities for former Yukos employees to travel from Russia to the US or UK. For example, in 2012 Vladimir Pereverzin, former Yukos manager, had to translate his whole criminal case to the US embassy in Moscow and apply several times for visa with no avail. Only after opposition figures and the media raised questions about this visa denial did the US Embassy grant entry to Pereverzin to travel around US and present his book on the fabricated criminal case carried out in Russia against him. At the same time, the sheer volume and ostentatious character of misapplication of Interpol rules by Russian security authorities and local office of Interpol has recently resulted in Interpol's public rejection of few high profile prosecutions. In May 2013, independent Commission for the Control of Interpol's Files rejected a Russian request for a worldwide police hunt for William F. Browder, a British investment banker who has carried a battle against the government of President Putin over accusations of human rights abuses (known as the Magnitsky case mentioned above).<sup>94</sup>

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<sup>92</sup> [http://lj.rossia.org/users/anti\\_myth/548992.html](http://lj.rossia.org/users/anti_myth/548992.html)

<sup>93</sup> <http://imrussia.org/politics/450>

<sup>94</sup> [http://www.nytimes.com/2013/05/26/world/europe/interpol-rebuffs-russia-on-its-hunt-for-a-kremlin-critic.html?smid=tw-share&\\_r=1&](http://www.nytimes.com/2013/05/26/world/europe/interpol-rebuffs-russia-on-its-hunt-for-a-kremlin-critic.html?smid=tw-share&_r=1&)

## **Selective usage of international law**

On 19 September 2013, the Greenpeace ship Arctic Sunrise, involved in a peaceful protest at Gazprom's Prirazlomnaya platform, was seized by the Russian Coast Guard. The crew of the Arctic Sunrise were then held without charge for several days. Recently, 28 Greenpeace International activists, including several US and UK citizens,<sup>95</sup> as well as a freelance videographer and a freelance photographer, have been charged with piracy and hooliganism, charges which carry a maximum sentence of 15 and 7 years respectively.<sup>96</sup>

An international maritime court began hearing on 6 November a Dutch complaint over Russia's weeks-long detention of a Greenpeace protest ship and its crew members, proceedings which Moscow is boycotting. The Netherlands claims that the arrest and detention of the Arctic Sunrise and its crew in September during a protest action off Russia's northern coast took place in violation of the UN Convention on the Law of the Sea. The Russian Federation ratified the UN Convention on the Law of the Sea, UNCLOS, on 12 March 1997. The treaty provides for compulsory third-party settlement of disputes over the interpretation or application of the convention. During a 17 October media briefing in Moscow, Alexander Lukashovich of the Russian Ministry of Foreign Affairs explained that when ratifying the Convention of 1982, the Russian Federation made a reservation about "non-acknowledgement of jurisdiction of international bodies in disputes related to the implementation of sovereign rights and jurisdiction." However, the Netherlands, Greenpeace and other Western NGOs argue that Russia cannot pick and choose which parts of the Convention on the Laws at Sea it will apply.<sup>97</sup>

## **Global Internet control**

Control of the Russian authorities over Russian segment is so large that Freedom House considers Russia among partially free country in terms of Internet Freedom.<sup>98</sup> Despite having already extensive surveillance control, Russian security authorities have recently demanded more programs of

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<sup>95</sup> <http://www.greenpeace.org/international/en/campaigns/climate-change/arctic-impacts/Peace-Dove/Arctic-30/>

<sup>96</sup> <http://www.greenpeace.org/international/en/news/features/Greenpeace-responds-to-allegations-by-Russian-authorities/>

<sup>97</sup> <http://ens-newswire.com/2013/10/24/russia-refuses-law-of-the-sea-arbitration-in-greenpeace-case/>

<sup>98</sup> <http://www.rferl.org/content/internet-freedom/25125123.html>

this kind, proposing that all Russian internet providers store all online traffic data for the previous 12 hours, with the FSB having direct access to that data by mid-2014.<sup>99</sup>

However, what should worry US and UK public opinion is that Russian authorities are equally determined to advance similar control measures on global scale. In November 2012, a Russian delegation to the International Telecommunication Union (ITU), a UN specialized agency for information and communication technologies that sets common rules in the sector around the world, offered amendments to international regulation on telecommunication which essentially suggested that states should have full sovereign control over their national segments of internet, including removal of internet domains.<sup>100</sup> China and Iran supported the Russian amendments. It was only after Google started a global public campaign against them that the Russian delegation decided to remove the amendments from the conference.<sup>101</sup> Since then Russian authorities have not publicly demanded similar measures on global scale, however, they are likely to repeat them in a new form, given FSB's latest proposals mentioned above and recent demands from Russian Duma members to keep all "official and strategic information" on servers in Russian jurisdiction and under Russian security control.<sup>102</sup> On 15 November 2013, Duma went through the first stage of the adoption of "additional measures of internet control", giving FSB extra surveillance power, ostensibly as a means to protect informational security of the Russian Federation.<sup>103</sup>

## **Chapter 3. Undermining democracy through soft corrosion**

### **Breakdown of US/UK financial, media and policy-making support for democratic development in Russia**

In the above two chapters we dealt with layers of corrosion export that are either clearly or at least partially covered by national and international law and regulation. In this chapter, the paper will discuss highly questionable or soft/debatable practices and trends that are should raise debate from an

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<sup>99</sup> <http://www.rferl.org/content/fsb-control-internet/25143395.html>

<sup>100</sup> <http://www.gazeta.ru/business/2012/11/21/4862257.shtml>

<sup>101</sup> [http://www.gazeta.ru/politics/2012/11/30\\_a\\_4875093.shtml](http://www.gazeta.ru/politics/2012/11/30_a_4875093.shtml)

<sup>102</sup> <http://www.novayagazeta.ru/politics/58683.html>

<sup>103</sup> <http://lenta.ru/news/2013/11/15/fsb>

ethical point of view or can be seen as undermining democratic institutions and values in UK and US.<sup>104</sup>

Although the mainstream media has not necessarily recognized these as such, one of the most dangerous among these trends has been the acquiescence to and even the outright appeasement of the Kremlin on the part of US and UK governments in the aftermath of the adoption of the Magnitsky sanctions list in April 2013 by President Barack Obama. Most acute are the issues of grants, support to traditional Western media outlets, operating in Russia and even specialized Russia-oriented programs for future Western policy-makers. These three issues are tied together as they present three threads in what is essentially a continuous and deliberate policy strategy in Washington and London. This policy is not formulated from any unitary point of authority and is not entirely homogeneous. However, it has some main similar tenets in both capitals which can be summarized as following: Russia is essentially not as dangerous as the USSR used to be and we – Western powers – need it only for few much more alarming regional problems: Iran, Syria, Afghanistan and North Korea. Following examples illustrate this decreasing lack of focus to Russia per se.

Washington's weak response to the Russian offensive against the Magnitsky list has been visible, in our view, already in May 2013. At that moment the US State Department did not publicize and downplayed the fact that a prominent US lawyer with Baker & McKenzie and former Justice Department official was expelled from Russia on 5 May after he apparently refused to co-operate with Russia's domestic spy agency.<sup>105</sup> Thomas Firestone was the resident legal adviser to the US embassy until 2012, and became known as an expert on corruption in Russian law enforcement agencies as he was closely involved in the case of Sergei Magnitsky and the notorious \$230 million tax fraud. According to the *New York Times*, the US administration quietly raised the issue of Firestone's expulsion with the Russian government but seemingly to no avail. In 2009, Firestone and the US ambassador at the time, John

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<sup>104</sup> This article is prepared for a panel discussion at ASEES 2013 Convention. It will thus avoid some of the topics, like export of corruption through media sources that will be presented by other panelists.

<sup>105</sup> <http://www.ft.com/cms/s/0/45a2ac28-c143-11e2-b93b-00144feab7de.html#ixzz2iEFUnLMx>

Beyrle, met with Alexander Bastrykin, the head of Russia's investigative committee, to complain about the conditions of Mr. Magnitsky's detention, but were rebuffed.<sup>106</sup>

As soon as the Magnitsky sanctions list was adopted in US, the Russian government and State Duma retaliated with a crackdown on independent NGOs, including through the development of the law on NGOs that operate as "foreign agents." This law was swiftly adopted by July 2013.<sup>107</sup> Almost a year before that, in October 2012, the Russian government had already ousted USAID, a major US agency providing support to democratic institutions in Russia, for the alleged negligence to Russian regulation on NGOs. Obama has not publicly criticized this decision, despite demands from Republican Senate members.<sup>108</sup> By June 2013, however, Russian authorities rushed the preparation of anti-independent NGO legislation. US reaction was at its lowest: when the then State Department Secretary Hilary Clinton visited St. Petersburg and met NGO representatives, she reportedly said that the US is seeking ways to continue providing funds to Russian NGOs in the way that would not irritate the Russian authorities.<sup>109</sup> However, Russian authors of the law on NGOs responded to this appeasing gesture by Clinton by publishing an exhaustive list of US-sponsored NGOs that act, in their opinion, as outright enemies of the Russian state and seek to destroy the country through subversive activity.<sup>110</sup> The list includes all major US international NGOs and prominent Russian NGOs dating back from Gorbachev and Yeltsin years.<sup>111</sup>

As for media, both UK and US have in the past few years experienced major setbacks in sustaining media outlets that have been voicing alternative views on Russian politics since soviet times. The author of this report has personally met a student in Oxford, who is a UK citizen with Russian roots (he did not wish to publicize his identity). His mother used to work for a major radio show at BBC Russian Service before it was reformed around 2010. The reform resulted in a removal of the main radio broadcasting in Russian and shifted the focus merely to online content. The source alleged that the real

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<sup>106</sup> [http://www.nytimes.com/2013/05/20/world/europe/russia-expels-former-american-embassy-official.html?\\_r=0](http://www.nytimes.com/2013/05/20/world/europe/russia-expels-former-american-embassy-official.html?_r=0)

<sup>107</sup> <http://www.rg.ru/2012/07/23/nko-dok.html>

<sup>108</sup> <http://top.rbc.ru/society/20/09/2012/670418.shtml>

<sup>109</sup> [http://www.gazeta.ru/politics/news/2012/06/30/n\\_2414661.shtml](http://www.gazeta.ru/politics/news/2012/06/30/n_2414661.shtml)

<sup>110</sup> <http://top.rbc.ru/politics/30/06/2012/657678.shtml>

<sup>111</sup> <http://podkontrol.ru>

reason behind the reform was that BBC Russian Service had been hugely infiltrated by Russian FSB-related agents and the BBC management along with the UK government decided that it is easier to simply remove the main bulk of the radio broadcasting. This allegation has been recently confirmed by Sergei Cristo, a Russian émigré familiar in Tory fundraising circles, who said that at the time he was concerned about the BBC Russian Service “which had a few pro-Kremlin journalists on its payroll who were soft-pedaling [the news of] Sasha’s [Litvinenko’s] final hours in hospital.”<sup>112</sup> Although the Service has since then introduced exposure in Russian cable channels with limited TV reports, overall coverage of audience in Russia has reduced.

A similar toll fell on US media. In late 2012, the US government-led Radio Liberty (RL) was practically ruined in few weeks through a strange act of self-destruction after being an influential and uncensored voice in Russia for decades. In September 2013, without warning, over 40 of RL’s leading staff were fired. This was done through the orders of the then RL President Steven Korn and his deputy for content Julia Ragona, in charge of RL reorganization, (who previously ran a lucrative business in Russia in partnership with the Russian government, which some believe may have created a conflict of interest).<sup>113</sup> The decision was allegedly the result of a new media law that took effect in Moscow, ending RL’s license to broadcast on AM frequencies. As with the closing in October 2011 of the offices of USAID, US management did not attempt to negotiate an exception, collaborate with a Russian media organization or intervene in Washington in order to apply equivalent treatment to Russia Today TV and Voice of Russia radio. A new head of RL, Masha Gessen, a bilingual journalist, the author of a critical biography of Putin, admitted to meeting with Putin just days before major firings at RL took place, giving the impression that the Russian president had potentially exerted pressure on her. After outcry against this destruction of RL took place among Russian opposition and among veterans of RL in Washington, old management and Gessen were removed, but the damage to the ability of RL reach its audience is still not fully repaired.

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<sup>112</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

<sup>113</sup> <http://www.heritage.org/research/reports/2012/12/how-to-save-radio-liberty>

Most recently, lack of focus on developments in Russia have been shown by US government on 4 November, when arguably the most influential Russia “Title VIII” program was axed by the Department of State amid budget cuts.<sup>114</sup> The decision to withhold funding for the major grant program for the 2013 fiscal year has already received active opposition among former policy-makers but so far to no avail.

### **Lobbying and propaganda behind an analytical and human rights façade**

While US and UK are retracting their media outlets and support to civil society NGOs in Russia, the Kremlin is aggressively expanding its soft power influence in the US and UK through a variety of means. One of the most striking and visible is the rapid construction of lobbying and propaganda networks in the two countries.

In the US, in May 2013 the Russian government has recently hired J.P. Morgan Bank to consult on the advancement of the Russian sovereign index, although lobbying experts in Washington believe that the Bank will work on minimizing blemishes to Russia’s political image. In mid to late 2000’s Goldman Sachs and PR agency Ketchum had worked on similar contracts with Russian government.<sup>115</sup> Both banks might have multiple conflicts of interest in doing this job, as they have had lucrative stakes in privatization programs developed by the Russian government and also dealt directly with state-run companies Gazprom, Rosneft and the like. After J.P. Morgan Bank’s recent corporate scandals in the US, one Russian leading internet media outlet argued that the Russian investment image is now handled by a structure whose own public image is not simply bad but horrible.<sup>116</sup>

Besides hiring lobbyists and PR agencies, the Kremlin is extending positive vibes about Russian politics through annual meetings of President Putin with Western political scientists and analysts at Valdai Club.<sup>117</sup> Harsh critics of the regime, especially from the ranks of human rights entities, are de-facto excluded from attendance. Kremlin press service carefully selects attendees that include a range between Moscow supporters to its mild critics but not anyone who is not “constructive.” Participants of

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<sup>114</sup> <http://www.themoscowtimes.com/news/article/key-russia-program-axed-amid-us-government-cuts/488946.html#ixzz2kZ2HafUQ>

<sup>115</sup> <http://www.gazeta.ru/business/2013/05/24/5335637.shtml>

<sup>116</sup> [http://www.gazeta.ru/comments/2013/01/29\\_a\\_4946133.shtml](http://www.gazeta.ru/comments/2013/01/29_a_4946133.shtml)

<sup>117</sup> <http://valdaiclub.com/authors>

the meeting often receive lavish receptions, entertainment, paid flights and hotels plus exposure to Russian TV channels and other media. In our view, it makes it difficult for many attendees to give up this privileged and comfortable access, keeping them from being impartial.<sup>118</sup>

A regular participant of the Valdai meetings, Nikolai Zlobin, has lately brought moderate discussions about Russian politics to the heart of lobbying in the US. In late 2012, Zlobin founded the Center on Global Interests (CGI), a Washington-based center for research and analysis of global affairs particularly focused on US-Russia relations. In documents published by WikiLeaks, Zlobin was described as a US-based political expert with connections to Russia's ruling United Russia party. Although often critical about certain incidents of excessive power abuse in Russia and little respect to human rights issues, the underlying theme of Zlobin's interviews and the CGI's reports is that US should appreciate Putin's regime as rational, moderate and open to mutually beneficial negotiation and cooperation. Zlobin is also highly critical of many aspects of US foreign and domestic policies, comparing them to what he sees as similar excesses in Russia and in the world in general. For example, in a recent comment on US sanctions against Russian singer and Putin's supporter Grigoriy Leps (mentioned in Chapter 1), Zlobin argued that these sanctions are "a political decision that can harm all sides: those who carry them out for political expediency and those who try to defend from them".<sup>119</sup>

However, away from Washington, Russians are bolder and establish much more aggressively inclined propaganda outlets, dressed as independent think-tanks and NGOs. In 2009, Andranik Migranyan, the Armenian-born political scientist with strong connections to the Russian government in

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<sup>118</sup> One telling example of the kind of moderate critics that are regular visitors to Valdai Club glimpsed before the eyes of the author of this paper in December 2012. On 9 December 2012 Andrew Kuchins, Director of the Russia and Eurasia Program at the Center for Strategic and International Studies in Washington, D.C. and a Valdai attendee, visited Russia at the time when US Congress adopted sanctions against Russian officials on the Magnitsky List. Russian Channel 1 showed a report on the US congress activity where Russian translation of the interview with Kuchins suggested that he agreed that the law was adopted not for human rights reasons but for purely commercial reasons as a result of the activity of an anti-Russian business lobby: <http://www.1tv.ru/news/economic/221657> When I pointed out this propagandistic trick to Kuchins in an email, he acknowledged the mistake and lamented that he would never again give Channel 1 an interview in English, only in Russian. In the response, I suggested that it is a known fact that Russian leading federal channels manipulate information and it would be good that if he publicized this fraudulent reporting. Kuchins did not respond and since then he has made more visits to the Valdai Club.

<sup>119</sup> <http://argumentiru.com/showbiz/2013/11/295212>

the last two decades, established and since then expanded the activity of the entity called the Institute for Democracy and Cooperation (IDC) in New York.<sup>120</sup> According to the IDC, the founders of the Institute in 2007 in Russia were, “15 Russian civil society organizations, representing different civic groups in Russia.” There are big doubts about independence of those founding civil organizations from Kremlin though, as Russian media has found extensive links and cooperation between the IDC and Konstantin Kostin. Kostin is an old associate of Putin and until May 2012 played a significant role in presidential administration’s internal politics department.<sup>121</sup> Olga Kostina, his wife, now runs the allegedly independent human rights “Resistance” NGO (which critics claim is government sponsored GONGO) and has had major decision-making impact on the choice for grants from the Russian state to local NGOs.<sup>122</sup> Interestingly, the main “human rights” activist that was accompanying Edward Snowden during his strange press conference in Moscow was Olga Kostina.<sup>123</sup>

Some of the core publications of the IDC, especially its annual report on “The State of Human Rights in the United States” runs along the lines of similar publications of the Russian Ministry of Foreign Affairs (MFA). In October 2012, for example, the MFA, in a continued effort to challenge reports from the State Department and Freedom House on human rights issues in Russia, published a report citing electoral rights inequality, racism, prison torture, pedophilia, censorship, human trafficking and other problems in the US as reasons to argue that in many ways the US is not better, but worse than Russia.<sup>124</sup> These writings are primarily based on open sourced materials that essentially accumulate all possible negative information that can be used to draw politically expedient conclusions. The IDC’s report basically repeated the same issues with the identical conclusion in 2012, while Migranyan spreads messages from the reports in regular TV appearances and opinion pieces in the US.<sup>125</sup> Recently, the IDC published a 165 page report that cites almost 600 media publications on all aspects of state surveillance

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<sup>120</sup> [http://www.rferl.org/content/In\\_The\\_Heart\\_Of\\_New\\_York\\_Russias\\_Soft\\_Power\\_Arm\\_Gaining\\_Momentum/1493429.html](http://www.rferl.org/content/In_The_Heart_Of_New_York_Russias_Soft_Power_Arm_Gaining_Momentum/1493429.html)

<sup>121</sup> [http://www.vedomosti.ru/politics/news/2248564/prokremlevskaya\\_pravozaschitnica\\_voshla\\_v\\_sovet\\_direktorov](http://www.vedomosti.ru/politics/news/2248564/prokremlevskaya_pravozaschitnica_voshla_v_sovet_direktorov)

<sup>122</sup> <http://www.ej.ru/?a=note&id=10295>

<sup>123</sup> <http://www.inosmi.ru/world/20130924/213255187.html#ixzz2it7BESZr>

<sup>124</sup> [http://www.gazeta.ru/politics/2012/10/22\\_a\\_4820485.shtml](http://www.gazeta.ru/politics/2012/10/22_a_4820485.shtml)

<sup>125</sup> [http://www.indemco.org/files/HR\\_Report2012.pdf](http://www.indemco.org/files/HR_Report2012.pdf); <http://www.huffingtonpost.com/andranik-migranyan/>

in US to violations in the workplace, the IRS, healthcare, to sexual assaults in the military and even “mass shootings as a failure to guarantee the right to life.”<sup>126</sup>

While no one is against free speech and criticism in the US, what the IDC reports do not mention is that unlike Russia problems that the reports raise in US public life are well-covered by US *mainstream* media from all political viewpoints, not just marginal opposition. The reports avoid saying that in the US democracy and pluralism may not be a smoothly working mechanism but its quality is tested not through avoidance of mistakes but by the reaction of the three independent branches of power to these mistakes and an ensuing free public debate. For example, abuses in the US military are primarily revealed by the military itself and Courts-Martial carry out harsh rulings every year. On surveillance issues there are open debates in Congress and numerous cases in courts that show that the dilemma between security and human rights is constantly shifting. In short, US democracy is far from perfect, but its qualities are shown not through absence of mistakes but response to mistakes when they become public.

As for UK, Russians have so far avoided establishing any significant pro-Kremlin think tanks on British soil, although in the past few years certain tycoons connected with Russian government, like Alexander Lebedev, Andrey Borodin and Len Blavatnik made attempts to introduce their political programs into existing UK think tanks and institutions. However, Russian officials and tycoons have been much more successful in their lobbying activity in UK than in US. An insightful article by Michael Weiss showed in detail how for a half a year in 2012 a London-based lobby group Conservative Friends of Russia (CFoR) was employed by United Russia party and Russian officials from the embassy in London. As the author argues: “[the] CFoR’s brief existence might have gone unnoticed but for two developments. The first was the number of Tory parliamentarians who joined its governance, including Sir Malcolm Rifkind, Margaret Thatcher’s former foreign minister ... The second was the way CFoR, which presented itself as a “neutral” talk-shop about British-Russian relations, followed slavishly the

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<sup>126</sup> <http://www.indemco.org/files/HR2013eng.pdf>

talking points of the Russian Foreign Ministry.”<sup>127</sup> After aggressive lobbying against anti-Putin MPs in parliament and connections with the Russian embassy were revealed, the CFoR was disbanded in late 2012 but, as mentioned in Chapter 1, soon after re-launched as the “Westminster Russia Forum” (WRF), importing all of its prior members automatically, according to the new group’s press material. WRF claims that it is run entirely run by volunteers in the interests of its members.<sup>128</sup> Some of its most visible events in 2013 included events like a presentation by John Mann, the experienced Public Relations professional who has worked alongside Roman Abramovich, Russian owner of Chelsea FC since 2002. Speaking as the guest speaker of WRF at the summer reception on the House of Commons Terrace in July 2013, his main message was that “Russia has a PR problem but its issues are being exacerbated by the Western media”. He also stated that Russia needs to “stop doing things wrong” and accepted that high profile cases such as the Magnitsky Affair reinforced and contributed to existing stereotypes, while accusing the Western media of focusing on only negative stories whilst ignoring those who were making positive changes within the system, such as rare reports about philanthropy of rich Russians (probably implying “philanthropy” by his boss Abramovich).<sup>129</sup>

Russian tycoons are much more successful in UK in terms of hiring former prominent British officials as their consultants and advisors. One example of this took place in 2008, when Peter Mandelson, prominent member of the Labour government at the time, provoked criticism through contacts with Oleg Deripaska, a prominent Russian metals tycoon.<sup>130</sup> The press passed allegations of a banker, who said that while Mandelson and Deripaska had been summer guests at his mansion on the Greek island of Corfu, two prominent politicians from Britain’s Conservatives, including Mandelson, had visited Deripaska on his yacht to ask for money for their party. These contacts sparked criticism because, as European Union trade commissioner, Mandelson had been responsible for two decisions to cut aluminum tariffs that had benefited Deripaska's United Company Rusal, but Mandelson refuted any

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<sup>127</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

<sup>128</sup> <http://wrforum.org.uk/about>

<sup>129</sup> <http://wrforum.org.uk/abramovich-pr-guru-russia-needs-fairer-media-representation-and-better-spokespeople>

<sup>130</sup> <http://www.themoscowtimes.com/news/article/uk-conservatives-linked-to-deripaska/371829.html>

connections between the two issues. However, by 2012 Mandelson retired and ran political consultancy, which received considerable amount of money from Kazakh and other overseas clients.<sup>131</sup> In mid-2013, *The Guardian* published an article alleging that Mandelson will join AFK Sistema's top management, at the moment the article is taken down pending further investigation.<sup>132</sup>

As mentioned above Russians made successful inroads into the Tory party where they seemed to have built a considerable fan group among MPs oriented toward economic cooperation with Russia. Russians also employ many PR and lobbying firms in London which are just simply too much to mention here as the phenomenon is so widespread. More interestingly, recently their interest seemed to have shifted toward attempts to sponsor UK election campaigns.

### **Sponsoring Western election campaigns**

In February 2012, The Conservative Party faced questions after accepting a donation from the empire of a controversial Russian oil and media billionaire Len Blavatnik.<sup>133</sup> It is quite possible that Blavatnik was making these donations not in the interests of Kremlin but only to legitimize his figure and enter London establishment. However, at about the same time Russian embassy official Nalobin tried to approach an intermediary of the Conservative party asking of ways for Russian companies to make donations to the Party.<sup>134</sup> Interestingly, Blavatnik is also a major donor on the US political scene and is reported to be President Barack Obama's richest contributor. While other sources say that Blavatnik has made donations to "political parties before in the US on both sides of the aisles."<sup>135</sup> Recently, Blavatnik has been seen in the company of Bill and Hilary Clinton.<sup>136</sup> One could see that Blavatnik can end up being a contributor for the Hilary 2016 presidential campaign.

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<sup>131</sup> <http://www.telegraph.co.uk/news/politics/9514481/Lord-Mandelson-follows-Tony-Blairs-global-wealth-strategy.html>

<sup>132</sup> <http://www.theguardian.com/info/2013/jun/01/taken-down-peter>

<sup>133</sup> <http://www.telegraph.co.uk/news/9074970/Russian-born-oil-billionaire-donated-to-Conservatives.html>

<sup>134</sup> [http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm\\_source=World+Affairs+Newsletter&utm\\_campaign=f54720d3ca-WAJ\\_Weiss\\_3\\_12\\_2013&utm\\_medium=email](http://www.worldaffairsjournal.org/article/plain-sight-kremlin%E2%80%99s-london-lobby?utm_source=World+Affairs+Newsletter&utm_campaign=f54720d3ca-WAJ_Weiss_3_12_2013&utm_medium=email)

<sup>135</sup> <http://www.telegraph.co.uk/news/9074970/Russian-born-oil-billionaire-donated-to-Conservatives.html>

<sup>136</sup> <http://www.businessweek.com/news/2013-04-23/scene-last-night-clintons-streisand-cohn-blavatnik>

## **Hiring/engaging prominent Western officials, dignitaries and stars**

While Mandelson's appointment to a major Russian company is under investigation, there are many striking examples of former prominent EU officials joining controversial high paying positions in the top management of Russian companies. Gerhard Schroeder, after stepping down as Germany's Chancellor, accepted Gazprom's nomination for the post of the head of the shareholders' committee of Nord Stream AG, raising questions about a potential conflict of interest not only in Germany, but also in UK, US and other Western countries. In 2008 Schroeder took a lucrative position of an independent director on the Board of TNK-BP but then departed it after internal conflict in the company flared up.

In October 2013, the then Mayor of New York Michael Bloomberg would be honored as the first recipient of a \$1 million award that organizers from the Genesis Foundation are calling the "Jewish Nobel Prize."<sup>137</sup> The award, established by Russian Jewish billionaires Mikhail Fridman and German Khan, aims to honor, "exceptional people whose values and achievements will inspire the next generations of Jews." Bloomberg somehow missed that over the last year Fridman admitted to firing Vladimir Ashurkov, a top level employee from his Russian Alfa bank, for off-work support to a legitimate opposition figure,<sup>138</sup> while Khan, as mentioned in Chapter 2, has been confirmed by UK judge to threaten his subordinate in TNK-BP.<sup>139</sup> Instead of learning more about these Russian tycoons, few months before the October nomination, Bloomberg announced that he was making Roman Abramovich and his partner Darya Zhukova honorary citizens of New York. This happened despite absence of clear explanation from Abramovich on the case of a potential bribe to Deputy Prime Minister Igor Shuvalov, also discussed in Chapter 2.

In early 2013, Igor Sechin, President of Rosneft, hired Daniel Yergin, author of the bestseller "Prize" and founder of a consultancy Cambridge Energy Research Associates (CERA), as a member of commission on merger with TNK-BP. CERA has often consulted Western governments in the past, but its

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<sup>137</sup> <http://www.nytimes.com/2013/10/21/nyregion/bloomberg-is-first-to-receive-a-1-million-jewish-award.html>

<sup>138</sup> <http://ksenia-sobchak.com/mixail-fridman-ob-uvolnenii-vladimira-ashurkova-podderzhivayushhego-navalnogo>

<sup>139</sup> <http://www.reuters.com/article/2012/12/04/us-tnk-bp-lazurenko-court-idUSBRE8B30XS20121204>

growing ties and interests with Rosneft and Gazprom put in a precarious position of conflict of interest.<sup>140</sup>

In March 2012, Janna Bullock, a Russian-born wealthy real-estate developer and art scene dealer has been mentioned in the media with respectable organizations (Board of the Solomon R. Guggenheim Foundation) and in publicized events with the actors Dennis Hopper and Jeremy Irons and Thomas Krens, the former Guggenheim director. In Russia opposition media has been accusing Bullock of connections with organized crime and money laundering through her former husband Aleksei Kuznetsov, who was for a few years a Moscow bank executive and government official.<sup>141</sup>

It is not only New York based Russians who enjoy appearing with Hollywood actors and art dignitaries at public events. In 2010, Putin notoriously sang “Blueberry Hill” at a charity auction in St. Petersburg that was organized in an opaque way but was nevertheless attended by a host of international film stars, including Kevin Costner, Gérard Depardieu and Sharon Stone, who clapped and sang along in the audience.<sup>142</sup> US actor Steven Seagal and British actress Elizabeth Hurley along with many other stars have been guests of Ramzan Kadyrov, authoritarian leader of Chechnya.<sup>143</sup> At the same time, some actors prefer not to provide legitimacy by lending their stardom to Kadyrov, as was the case with singer Shakira, who refused invitations from Chechnya in 2011.<sup>144</sup> At about the same time, actress Hilary Swank issued a public apology and sacked her manager after being criticized by human rights groups for hobnobbing with Kadyrov at a gala dinner in Grozny.

### **Real estate acquisition from questionable sources**

Over the last decade Russian officials (former and present ) and tycoons with well-established connections with the Kremlin have increasingly bought high end property in London, New York, Miami and other places in UK and US. There is nothing criminal or immoral in acquisition of luxurious property

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<sup>140</sup> <http://www.kommersant.ru/doc/2121570>

<sup>141</sup> [http://www.nytimes.com/2012/03/27/arts/design/janna-bullock-strikes-back-at-russian-elite-with-art-show.html?\\_r=0](http://www.nytimes.com/2012/03/27/arts/design/janna-bullock-strikes-back-at-russian-elite-with-art-show.html?_r=0)

<sup>142</sup> <http://www.independent.co.uk/news/world/europe/vladimir-putin-finds-his-thrill-on-blueberry-hill-2158697.html>

<sup>143</sup> <http://www.hollywoodreporter.com/news/steven-seagal-guest-chechnya-leader-644310>

<sup>144</sup> [http://www.rferl.org/content/shakira\\_denies\\_she\\_is\\_performing\\_for\\_chechen\\_president/24343763.html](http://www.rferl.org/content/shakira_denies_she_is_performing_for_chechen_president/24343763.html)

if it is done with earnings from legally sound and ethical business sources. However, there is plenty of evidence suggesting that money coming from Russia into these markets is often not earned in that way.

In January 2011, Russian opposition leader Vladimir Milov wrote in his blog a reference based on open-sourced information that showed that Semyon Vainshtok, a long-time associate of Vladimir Putin, heads a real estate company in Israel that acquired about a third in a New York office building known as Lipstick building, where offices of the fraudulent financier Bernard Madoff were situated before his arrest. Before moving to Israel, Vainshtok was head of Russian oil transit monopoly Transneft and state construction company Olimpstroy.<sup>145</sup> Vainshtok's activity in both Russian companies lead to numerous allegations and suits about financial misappropriation in Russia which many argue led to Vainshtok's eventual escape to Israel.

At the end of 2011, Mikhail Fridman, a former TNK-BP shareholder mentioned above, said he plans to invest \$1billion along with US partners in the real estate in eastern parts of USA. Fridman praised these investments as the most secure in the world.<sup>146</sup> However, arguably the biggest news impact in US media has been done by the eldest daughter of Dmitry Rybolovlev, who bought a record expensive apartment at 15 Central Park West in New York in April 2012.<sup>147</sup> Using a trust set up to benefit her and her future children, Ms. Rybolovleva bought the condominium with cash for \$88 million. After that breaking sale, more than 200 real estate brokers and lawyers, many of them among the most ambitious in the Manhattan real estate world, convened for a special session to discuss how to attract more Russian money.

Rybolovlev has a colorful story behind him. Shortly after being named chairman of a major Russian potash producer Uralkali in 1996, at age 29, he was charged with murder in the death of a competitor. He spent 11 months awaiting trial before the chief witness against him recanted and the charges were dropped. His survival has been explained by many experts by loyalty to the ruling regional and party elite. In 2005, an opposition leader Sergei Belykh learnt from Rybolovlev that the latter would

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<sup>145</sup> <http://v-milov.livejournal.com/307055.html>

<sup>146</sup> <http://www.gazeta.ru/business/2011/12/21/3936166.shtml>

<sup>147</sup> [http://www.nytimes.com/2012/04/04/realestate/russians-court-luxury-real-estate-with-record-breaking-sales.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2012/04/04/realestate/russians-court-luxury-real-estate-with-record-breaking-sales.html?pagewanted=all&_r=0)

only support the ruling party, at any expense if necessary.<sup>148</sup> There have been plenty of media and industry reports that suggest that it was Rybolovlev's rapacious management of Uralkali that led to a huge environmental catastrophe in the town of Berezniki, in Perm region, where the company has its main production site. By 2006 rapid extraction of potash without proper safety management led to flooding of mines and subsequent land slide under multiple civil buildings and apartment blocks in the town. Reportedly, Rybolovlev was seriously penalized by Russian authorities for this catastrophe only after he crossed business interests of Russian railroads ministry and the then Deputy Prime Minister Igor Sechin.<sup>149</sup> Rybolovlev also owns the Maison de L'Amitie in Florida, which he purchased from Donald Trump for \$95 million in 2008.<sup>150</sup> In 2011 Rybololev reportedly bought a mansion from actor Will Smith on Kauai, Hawaii, for \$20 million. In August 2013, it was reported that Rybolovlev's ex-wife Elena Rybolovleva is suing her estranged husband in Oahu First Circuit Court - over claims he had bought up property in Hawaii and around the world in order to avoid paying her up to \$3.5 billion in a divorce settlement.<sup>151</sup>

Recently, New York real estate agents received more thrills from Russian billionaires with dubious reputations, when in October 2013, NY Post announced that Roman Abramovich bought a historic mansion on Manhattan's Fifth Avenue Gold Coast is in contract for \$75 million (which would be the highest price ever paid for a co-op in the city).<sup>152</sup>

With the exception of New York real estate properties traced to a huge fraud related to the Magnitsky case<sup>153</sup> and controlled by the Katsyv family (mentioned above in Chapter 24), there has been virtually no prevention for Russian tycoons and officials to buy luxury property in US, even when back in Russia their ethical and criminal record have been questioned. When that property was arrested by US authorities, Preet Bharara, the US attorney in Manhattan said in a statement that, "Today's forfeiture

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<sup>148</sup> <http://www.forbes.ru/forbes/issue/2008-05/11470-v-chem-sol>

<sup>149</sup> [http://www.vedomosti.ru/library/news/1541119/pervyj\\_vozle\\_putina#ixzz2i2bmAvH2](http://www.vedomosti.ru/library/news/1541119/pervyj_vozle_putina#ixzz2i2bmAvH2)

<sup>150</sup> <http://www.realtytoday.com/articles/4428/20130604/dmitry-rybolovlev-planning-tear-down-maison-de-lamitie.htm>

<sup>151</sup> <http://www.nydailynews.com/life-style/real-estate/billionaire-bought-20m-home-hide-cash-wife-lawyer-article-1.1429853>

<sup>152</sup> <http://nypost.com/2013/10/04/russian-mogul-pays-record-75m-for-fifth-avenue-co-op>

<sup>153</sup> <http://www.buzzfeed.com/maxseddon/russians-laundered-237-million-in-corrupt-cash-through-nyc-r>

action is a significant step toward uncovering and unwinding a complex money-laundering scheme arising from a notorious foreign fraud. While New York is a world financial capital, it is not a safe haven for criminals seeking to hide their loot, no matter how and where their fraud took place.”<sup>154</sup>

Unfortunately there is an overwhelming evidence this particular forfeiture in New York was a single exception to an overall widespread negligence to the origins of Russian money pouring into US real estate property.<sup>155</sup>

Over the last year, Russian opposition<sup>156</sup> has uncovered possessions of property in Miami and New York by a number of Russian Duma deputies and members of the Council of Federation (CoF). These included: Vladimir Pekhtin, former chairman of the State Duma Ethics Committee (over \$2 million in property in Florida),<sup>157</sup> Viacheslav Fetisov, CoF member (over \$10 million property in New York and Florida). Russian opposition leader Alexey Navalny has recently uncovered total immunity of Fetisov despite evident ambiguity of his property purchases in Moscow.<sup>158</sup> Vitaly Malkin, a former Russian CoF member, has been accused of employing workers responsible for deafening construction noise at his \$15million Time Warner Center duplex in May 2013.<sup>159</sup> At the same time, it is interesting that US authorities seem to have little knowledge that Malkin had by been refused by Canadian authorities an entry visa in court case that has run for more than a decade, claiming that the billionaire Russian senator has links to organized crime, according to public records of the Canadian Federal Court.<sup>160</sup> However, the most notorious case, in our view, has been revealed recently in regard to Vladimir Golovnev, Duma Deputy in 2007-2011 and member of United Russia party.<sup>161</sup> In October 2013, Russian opposition revealed documents that Golovnev and his wife bought over \$2 million worth of property in Florida while one of Golovnev’s main businesses in Russia is a holding company “Vostok Service” which makes

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<sup>154</sup> <http://www.nytimes.com/2013/09/11/nyregion/us-seeks-forfeiture-of-manhattan-real-estate-tied-to-fraud.html>

<sup>155</sup> [http://ny.curbed.com/archives/2013/01/31/where\\_the\\_russians\\_live\\_with\\_their\\_billions\\_in\\_new\\_york\\_city.php#more](http://ny.curbed.com/archives/2013/01/31/where_the_russians_live_with_their_billions_in_new_york_city.php#more)

<sup>156</sup> <http://newtimes.ru/articles/detail/63103>

<sup>157</sup> <http://www.interpretermag.com/tropical-hypocrisy-one-russian-lawmakers-florida-real-estate-problem/>

<sup>158</sup> <http://navalny.livejournal.com/868806.html>

<sup>159</sup> <http://www.dailymail.co.uk/news/article-2329376/Vitaly-Malkin-Russian-billionaire-sued-noisy-building-work-Time-Warner-Center-apartment.htm>

<sup>160</sup> <http://visalawcanada.blogspot.co.uk/2009/06/battle-brems-over-visa-for-russian.html>

<sup>161</sup> <http://navalny.livejournal.com/864923.html>

its earnings through selling clothes produced by slave labour in Russian prison system, including by an imprisoned Pussy Riot band member Nadezhda Tolokonnikova, who recently made public complaints about health and labour conditions in her prison. While CNN and other US media have covered Tolokonnikova's status,<sup>162</sup> they have by and large avoided exposure of who is benefiting on US soil from slave labour in Russia.

In 2008-2012, according to *The Times*, "Russians and other citizens of the Soviet Union" have spent more than \$1 billion in US residential real estate. It is predicted that this is only the beginning, especially as the number of billionaires in Russia and Ukraine grows, and those billionaires seek to put their money outside of the reach of Putin's government.<sup>163</sup>

As for London, we have mentioned above few controversies surrounding properties of number of Russian tycoons and officials (Baturina, Blavatnik, Khan, etc), there is not enough space to discuss all incidents and they are well-known. It is enough to say that in 2011, according to the UK media, "In central London, the biggest investors have been from Eastern Europe, including oligarchs, with 15 percent of the market and an average purchase price of £6.2m".<sup>164</sup> This has reportedly led to the wide accepted perception of inability for an average British citizen to afford to live in central London and to hours-long commute.

### **Sponsoring US/UK universities for legitimization or access purposes**

Over the last few years Russian oligarchs and CIS tycoons connected with Russia have thrown large sums of sponsorship money and grants in their name on a number of well-known US/UK universities. These grants can be considered investments that seek legitimization of the tycoons' reputation in the West and their wealth earned in FSU countries. This shopping for reputation has been largely very successful for the buyers as such investments represent a small proportion of their overall wealth while at the same time allowing the sponsors to enter Western establishment and be praised as philanthropists.

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<sup>162</sup> [http://slon.ru/russia/verzilov\\_u\\_nas\\_net\\_drugikh\\_komanduyushchikh\\_krome\\_tolokonnikovoy-1006067.xhtml](http://slon.ru/russia/verzilov_u_nas_net_drugikh_komanduyushchikh_krome_tolokonnikovoy-1006067.xhtml)

<sup>163</sup> <http://www.theatlanticwire.com/national/2012/04/new-york-citys-russian-real-estate-boom/50723>

<sup>164</sup> <http://rendezvous.blogs.nytimes.com/2012/04/08/as-russian-real-estate-money-floods-in-could-new-york-go-the-way-of-london>

In September 2010, Leonard Blavatnik — a Russian-American industrialist mentioned above and reputed to be the sixth richest man in Britain — gave a £75 million, or \$119 million, donation to Oxford University to open what is now called Blavatnik School of Government (BSG). BSG's ultimate idea is to compete with Kennedy's School of Government, Harvard University on a global scale. In spring 2012, Blavatnik was praised at a lavish reception at Waldorf Astoria as a "one of the global leaders of the 21<sup>st</sup> century" and in October 2012 Blavatnik received an exceptional award from Chris Patten, Chancellor of Oxford University, called Sheldon Medal.<sup>165</sup> In 2007 Blavatnik together with New York Academy of Sciences has also sponsored "Blavatnik Awards for Young Scientists" for young postdoctoral and faculty scientists who work in New York, New Jersey, or Connecticut.<sup>166</sup>

In 2008-2010, Dmytro Firtash, one of the richest tycoons from Ukraine with strong links to President Viktor Yanukovich and Russia's Gazprom, made a number of donations to the University of Cambridge.<sup>167</sup> Reportedly, Firtash made most of his money through opaque gas trade schemes between Russia and Ukraine which has been questioned by FBI, Ukrainian and Russian opposition. In 2011 he actually filed a libel lawsuit against a Ukrainian paper *the Kyiv Post*, citing his donations to the University as one of the reasons he has chosen to pursue the case through the British Courts.<sup>168</sup>

In 2011, Boris Jordan, an American businessman of Russian origin, gave a grant to New York University to establish what is now The Jordan Center for the Advanced Study of Russia. This center often holds panels that discuss freedom of press and media in Russia. Paradoxically, in 2001-2003 Jordan who had close connections with Russian financial elite and government, was the Director General of the Russian TV channel NTV and also the Director General of Gazprom Media, a subsidiary media holding of Gazprom (now of Gazprombank) that owned NTV. Unlike US media and NYU, Russian opposition still remembers vividly that on 3 April 2001, Gazprom Media conducted a shareholders' meeting with violations of procedures and removed the lawful director Evgeniy Kiselyov from the NTV Director General position. On 14 April 2001, Gazprom took over NTV by force and brought in its own

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<sup>165</sup> [http://www.campaign.ox.ac.uk/news/blavatnik\\_medal.html](http://www.campaign.ox.ac.uk/news/blavatnik_medal.html)

<sup>166</sup> <http://blavatnikawards.org/about/>

<sup>167</sup> <http://www.cambridgetrust.org/partners/dmitry-firtash>

<sup>168</sup> <http://www.varsity.co.uk/news/3112>

management team, headed by Boris Jordan. Many leading Russian journalists, including Yevgeniy Kiselyov, Svetlana Sorokina, Viktor Shenderovich, Vladimir A. Kara-Murza, Dmitry Dibrov, left the company because of this violent suppression of the lawful media outlet. Citizens concerned by the threat to the freedom of speech in Russia argued that the financial pressure on NTV was inspired by the Vladimir Putin's government, which was often subject to NTV's criticism. Some tens of thousands of Russians rallied to the call of dissident NTV journalists in order to support the old NTV staff in April 2001. Within the next couple of years, two independent TV channels which absorbed the former NTV journalists, TV-6 and TVS, were also shut down. At the end of 2001, the Washington Post article argued that after the new management headed by Jordan forced its way into NTV, the channel ceased to be independent and became a loyal outlet for Kremlin.<sup>169</sup>

## **Conclusions.**

### **Summary and policy suggestions**

The overwhelming negligence that we, in general, see in regard to the Russian regime and its affiliates on the political agenda of US, UK and Western European countries is occurring because Russia is seen as difficult but relatively stable state, trying as always to maximize its influence but playing generally from a weak hand (or at least it is perceived as such).<sup>170</sup> US and European policy makers have other concerns and they are simply not interested in Russia while national parliaments lack knowledge about Russian corrosive practices. At the same time US and UK do not want to antagonize Russia on issues that are seen as secondary to the objectives of securing regional security in certain conflict zones of the world and enhancing solely economic cooperation based on large business and trade.

At the time when Obama's "Re-set" policy is considered dead<sup>171</sup>, Russian press-secretary almost publicly mocks Britain, the little island, as diplomatically irrelevant<sup>172</sup>, and Russian security and

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<sup>169</sup> [http://www.newsru.com/russia/07dec2001/jordan\\_ntv.html](http://www.newsru.com/russia/07dec2001/jordan_ntv.html)

<sup>170</sup> <http://www.novayagazeta.ru/politics/57953.html>

<sup>171</sup> [http://www.gazeta.ru/politics/news/2013/05/24/n\\_2930037.shtml](http://www.gazeta.ru/politics/news/2013/05/24/n_2930037.shtml)

<sup>172</sup> <http://www.telegraph.co.uk/news/worldnews/europe/russia/10290243/Russia-mocks-Britain-the-little-island.html>

diplomatic corps are increasingly distancing themselves from joint security<sup>173</sup> and political treaties with the West, US and UK administrations should finally realize what type of regime and legacy they are dealing with. In USSR there was a Communist party rule, where Politburo members held KGB and other security forces under control. Now the regime is controlled by former KGB members themselves without any party control and they are ready to employ all mechanisms in the security and political spheres that KGB was good with in Soviet times for their current global business interests, ranging from energy to all other possible industries.<sup>174</sup> In this task ex-KGB ruling elite is hugely enhanced on global stage through hands of extremely wealthy and mostly loyal tycoons, who often have questionable track record (carefully recorded by the Kremlin and FSB) and are fearful to lose their assets and connections in Russia. These tycoons are helping to extend questionable practices and values of the Russian political and economic system in all walks of western life. In the table below we have summarized all different layers of corrosion export mentioned in this article with their characteristics, effects on US and UK and possible policy suggestions.

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<sup>173</sup> [http://www.gazeta.ru/politics/news/2013/01/30/n\\_2730629.shtml](http://www.gazeta.ru/politics/news/2013/01/30/n_2730629.shtml)

<sup>174</sup> <http://www.chathamhouse.org/publications/books/archive/view/191955>

<b>Layers of corrosion export</b>	<b>Criminal, questionable, debatable</b>	<b>How widespread/recent dynamic</b>	<b>Who executes/coordinates?</b>	<b>How costly/effort intensive?</b>	<b>How effective in reaching set goals?</b>	<b>Impact on US/UK</b>	<b>Policy suggestions</b>
Assassinations Chapter 1.	Criminal	Growing in London	Most likely qualified Russian agents ordered by their superiors in Moscow	Bringing polonium and assassins with weapons to UK must be costly and requires special services support	Highly effective: targets are mostly physically eliminated, sets fear of lack of protection for other defectors	Russian criminals are not afraid of violent methods in the UK. UK police and FCO appear to protract investigations in order to pacify Kremlin.	a) Increase ability for victims to investigate in UK courts without fear of incurring indefinite expenses  b) carry out toxicology and other investigation reports quicker
Arms smuggling Chapter 1.	From outright criminal (i.e. in Africa) to publicly defying US/UK sanctions (but not UN) as in Syria	Widespread in developing world, recent increase is seen in Syria	Kremlin, Rosoboronexport, intermediaries like Viktor Bout, Russian first and second tier banks	Lucrative for Rosoboronexport and intermediaries, involves a lot of cover up and logistical effort	Mostly effective, with the alleged failure of S-300 smuggling to Iran	Circumvents US national interests in the Middle East, prevents pacification in Africa and other developing regions with civil wars	a) Imposing sanctions on Russian first and second tier banks helping Syrian regime to buy arms  b) Increased trial of intermediaries in US/UK courts
Espionage Chapter 1.	Criminal	Growing in the West	Russian security services, few incidents of industrial espionage also lead to the state	More resources allocated for security services in each consecutive Russian budget	Varies	Although hardly more fierce than during Soviet times, drains increasing resources in UK/US to circumvent it	a) Review activity of United Russia lobbyists and “cooperation” programs like Rossotrudnichestvo.  b) do not decrease staff and experts on

							Russia at the time when it increases its espionage activity
Bribing Chapter 1.	Criminal	Growing in the EU structures and at Western company level dealing with Russia	Russian regime and affiliated corporations	Costly but mostly unknown	Varies	Undermines integrity of UN, EU and other western structures and values	Scrutinize business links of reps of legal and executive branches with Russian corporations and regime
Questionable Oil/Gas Int'l Activity Chapter 1.	From Criminal to Questionable	Growing in Europe	Russian state through control stake and loyal management in Gazprom and other companies connected with regime	Lots of effort not only from Gazprom/Rosneft but from Russian diplomacy and legal system	Depends on the country, US and UK are not yet directly affected	Impacts negatively oil and gas pricing and flows in Europe, affects ownership rights of western shareholders in Russian assets	a) Increase measures against trading manipulation b) Enforce and publicize anti-monopolistic measures against Gazprom
Other Criminal Activity Chapter 1.	Criminal	Growing in the West	All three levels	Varies	Varies	Undermines confidence in US/UK law enforcement capability and values	Improve monitoring of new forms of criminal activity by Russians in the West
Manipulation in Int'l Organizations Chapter 2.	Questionable to debatable	Arguably coming back to the Soviet time levels around the world	Mainly Russian state	Large effort from Russian security services and diplomacy	Often successful	Makes US and UK more prone to act outside global organizations	Publicize revealed facts of manipulation in mainstream media, remove Russia from certain non-security institutions after severe and repeated

							transgressions.
Abuse of Western Financial Systems Chapter 2.	Debatable (from legal perspective Russia complies)	Growing globally	Russian state via Rosfinmonitoring and to other financial watchdogs	Large effort from Russian security services and financial officials	Primarily Successful	Undermines confidence in anti-money laundering mechanisms in the West	a) Review FATF regulation beyond formal compliance b) pursue high level cases, like Igor Shuvalov's case
UK Courts' Abuse Chapter 2.	Up for review in each case	Growing rapidly	All three levels	Mostly large financial costs	Varies	Allows for court tourism, legal blackmail, makes procedural costs unbearable	a) Increase penalties for proved cases of tourism blackmail. b) Review procedures on crimes committed in Russia and admitted in UK courts
Misapplication of Interpol Chapter 2.	Questionable	Growing globally	Russian state	Little financial cost, sometimes considerable diplomatic effort to justify misapplication	Used to be predominantly successful but recently this started to change	Allows for abuse of the system against enemies of the Russian regime even on US and UK soil	a) Consider large scale reform of Interpol b) Encourage Interpol's ability to refrain from persecuting political cases
Selective Use of Int'l Law Chapter 2.	Debatable	Gradually increasing for select cases Russian regime finds useful	Russian state	Varies	Varies	Undermines EU Court of Human Rights, the Law of the Sea	a) Ensure greater media exposure b) Counteract reverse due diligence through independent auditors
Global Internet Control	Debatable	Gradual pressure is built by Russia and its allies in this issue	Russian state	Large effort from Russian security services, Duma and diplomacy	Successful in Russia	Prevents freedom of information globally, puts security services before civil society	a) Involve corporations like Google and NGOs in int'l negotiation b) develop new technology which is difficult to control on national level for political purposes

Breakdown of US/UK grants and media support Chapter 2.	Debatable	Growing rapidly	US and UK governments and corporations/NGOs as a result of the pressure from Russian state	Large effort from Russian security services, Duma, state-controlled media and diplomacy	Very successful within Russia	Undermines Russian civil society support for democratic values and for UK and US in general	Bring back increased media coverage to Russia, do not try to please Russian regime
Russian lobbying abroad/Putin's apologists Chapter 2.	Questionable to debatable	Growing in the US and Europe	All three levels	Large financial costs	Varies	Undermines belief in democratic values in US, UK and Russia	Publicize these incidents more widely
Russian propaganda through "think tanks" Chapter 2.	Debatable	Growing, especially in the US	Russian state and affiliated corporations/NGOs	Considerable financial costs, diplomatic and media support	Relatively successful	Increases conspiracy theories and divides US public into aggressively opposed camps	Scrutinize propaganda and counteract by increased international media coverage of falsified facts
Sponsoring Western election campaigns Chapter 2.	Debatable	Limited in the UK and US but largely unknown	All three levels	Limited	Limited	Undermines belief in democratic values in US, UK and Russia. Legitimizes questionable politicians and businessmen	Increase parliamentary scrutiny
Engaging Prominent Westerners Chapter 2.	Debatable	Growing rapidly in the US and Europe	State and corporate levels	Considerable financial effort and media support	Mostly successful	Undermines belief in democratic values in US, UK and Russia. Legitimizes questionable politicians and businessmen	a) Introduce professional ethical codes b) publicize most notorious cases
Real Estate Acquisition Chapter 2.	Debatable	Growing rapidly	Primarily individual level	Huge to considerable costs. Efforts by Parliament to defend its members	Successful	Makes central property less accessible for average US/UK capital residents. Legitimizes	a) Introduce professional ethical codes b) publicize most notorious cases

						questionable politicians and businessmen	c) increase money-laundering scrutiny d) set up an audit body which can make independent review of Russian legal evidence
Sponsoring of US/UK Universities  Chapter 2.	Debatable	Growing in US and UK	Individual level	Considerable costs in absolute terms but not for tycoons who do it	Successful	Undermines academic circles. Damages belief in democratic values in US, UK and Russia. Legitimizes questionable politicians and businessmen.	a) increase incentives for grants from non-tycoon level  b) allow consultative referendums among alumni, students and tutors  c) remove incentives to give names to grants  d) allow more third party international due diligence and audit  e) set up ethical code on grants

