

MONEY LAUNDERING INVOLVING RUSSIAN INDIVIDUALS  
AND THEIR EFFECT ON THE EU

TESTIMONY OF DR. ANDERS ÅSLUND

SENIOR FELLOW, ATLANTIC COUNCIL, WASHINGTON, DC  
ADJUNCT PROFESSOR, GEORGETOWN UNIVERSITY

JANUARY 29, 2019

TAX-3 COMMITTEE  
EUROPEAN PARLIAMENT

Mr. Chairman, I would like to thank you for this opportunity to speak on an important topic. In my view, Russian money laundering into the European Union amounts to a major national security threat to all EU member countries. We need to understand and take measures against this curse. The best cure is far-reaching financial transparency. Fortunately, the EU has taken the right steps with its adoption of the Fifth EU Anti-Money Laundering Directive in June 2018. Its key provisions are that it requires all member states to “ensure that the information on the beneficial ownership” of all legal entities is accessible to the competent authorities and to “any member of the general public.” It is vital that this directive is fully implemented.

My starting point is the nature of the current Russian regime. Under President Vladimir Putin, Russia has developed not only into an authoritarian state, but into an authoritarian kleptocracy. Putin’s regime amounts to a merger of security police and organized crime. In my forthcoming book, *Russia’s Crony Capitalism: The Path from Market Economy to Kleptocracy* (Yale University Press, May 2019), I present Putin’s regime as four circles of power. Three of them are domestic: the state, the state companies, and his cronies that tap the state and its enterprises on money. All these bodies are controlled by men completely loyal to Putin. They all come from St. Petersburg and have worked with Putin for years, but they are not all from the KGB. Closeness and loyalty to Putin are more important than belonging to the KGB. But the fourth circle is the Anglo-American offshore, where Putin and his friends keep their excess funds.

Since 2004, Putin and his closest friends have withdrawn \$10-15 billion a year from Gazprom alone for their personal gain. In total they have probably extracted \$15-25 billion a year from the Russian state and state companies. Putin’s main cronies are Gennady Timchenko, Arkady

Rotenberg, his brother Boris Rotenberg, and Yuri Kovalchuk, all old friends of his from St. Petersburg. All four have been sanctioned by the United States, but the EU has only sanctioned Arkady Rotenberg and Yuri Kovalchuk because Timchenko and Boris Rotenberg are Finnish citizens. Putin has also parked substantial fortunes of at least half a billion US dollars each with four childhood friends<sup>1</sup> and at least five close relatives.<sup>2</sup>

Some big Russian businessmen have chosen to cooperate very closely with the Kremlin and provide a multitude of services to the Kremlin. The most obvious examples are Roman Abramovich, Oleg Deripaska, Alisher Usmanov, and Suleiman Kerimov. Of these four top Kremlin oligarchs, only Deripaska and Kerimov have been sanctioned by the United States and none by the EU.

In April 2016, the Panama Papers were published. They revealed that a publicly-known childhood friend of Putin, the cellist Sergei Roldugin, had received more than \$2 billion in offshore wealth from Russian oligarchs and the Russian state, apparently holding assets for Putin. Much of these funds came from stock and contract manipulation of Russian state companies. Another source was “donations” or extortion from big private Russian businessmen, for example, \$259 million from Kerimov. A third source was bank loans. The Russian state bank VTB’s subsidiary in Cyprus had given Roldugin’s company a credit line of \$650 million, which it wrote off.

---

<sup>1</sup> Petr Kolbin, Sergei Roldugin, Vladimir Litvinenko, and Il’gam Ragimov.

<sup>2</sup> Kirill Shamalov Igor Putin, Vera Putina, Mikhail Putin, and Mikhail Shelomov.

Since 1990, Russia has seen steady and large capital outflows. The net outflows amount to about \$800 billion and total Russian private holdings of assets abroad are probably of that dignity because few have managed to get big returns on their offshore holdings. The causes of capital flight have varied – unreliable banks, transfer pricing, tax evasion and escape from corporate raiding instigated by the state. The fundamental reason is that Russia does not have a reliable judicial system and therefore not reliable property rights. Only assets abroad are safe from expropriation by the Russian authorities, as Mikhail Khodorkovsky and Yukos Oil Company experienced so bitterly. The irony is that also Putin and his cronies transfer spare liquidity abroad because if Putin would lose power in Russia, they presume that all their assets would be expropriated by the new rulers. Given that Russia does not have any rule of law, it is hazardous to assess what funds that are illicit or legal.

Traditionally, Russians have initially made their transaction through Cyprus because of an old bilateral Soviet-Cyprus double taxation agreement of 1982, which Cyprus and Russia renewed in 1997. Already in the late 1980s, Russian commodity traders set up numerous trading companies in Cyprus, which has excellent financial services and good rule of law, and it then allowed anonymous ownership. Typically, the funds pass through Cyprus to other offshore havens, mainly the British Virgin Islands and then to the Cayman Islands. In each offshore haven several layers of shell companies are added. Seriously dirty money is often hidden under a layer of 20-30 anonymous shell companies. Other prominent channels for money laundering from Russia have been Latvia, Estonia, Moldova, and Malta. In recent years, various money laundering scandals, stricter EU anti-money laundering, and the financial crisis in Cyprus have diverted the Russian monetary outflows to other channels, with Dubai as the prime winner.

Little Russian money stays in these countries. After the banking crisis in Cyprus in 2013, the International Monetary Fund carried out a forensic analysis and found that Russian foreign direct investment in Cyprus itself amounted to only \$14 billion, a small fraction of the estimated \$800 billions of private Russian assets abroad. Such large funds require great financial depth. In effect, only the United States and the United Kingdom allow large volumes of anonymous investment. The US Treasury assesses that some \$300 billion a year is laundered into the US, while the UK National Crime Agency claims that \$125 billion is being laundered in that country each year, of which Russian money comprises a significant share. The dominant form of investment object is real estate. Other possible investments are private equity funds, hedge funds and US Treasuries, while the banking system and ordinary stock exchanges are well regulated and policed.

The total wealth of Russia's 100 billionaires is commonly assessed at about \$400 billion by Forbes. However, that wealth appears to be what these people own in Russia, not including offshore wealth. *Forbes* assessed fortunes of Putin's four cronies – Timchenko, the Rotenbergs and Kovalchuk - at \$21 billion in 2017, but this appears far too little given that they appear to have tapped the state on \$15-25 billion a year since 2006. If we instead add up that amount, we arrive at \$195-\$325 billion, which would comprise 40 percent of the Russian offshore wealth. If we presume that half belong to Putin personally, his wealth would be \$100-\$160 billion. Bill Browder thinks Putin has extorted half the wealth of the old oligarchs and set Putin's fortune at \$200 billion. We cannot know in any close range, but we do not that the wealth is enormous, as is the cost to Russian society.

Why would they hold such vast fortunes hidden abroad? The large outflow of Russian savings depresses investment in Russia as well as consumption, which means that the outflows depress economic growth and national wealth in Russia. Since the main objective of the owners is to keep their offshore funds safe and hidden, they generate little or no return. The explanation is that money is power and power is money when no property rights exist. If you do not hold the overwhelming wealth in the country you rule, your power is in danger. Putin seems to have drawn that lesson from the 1990s.

While the main purpose of the vast hidden wealth of the Russian rulers and their loyal oligarchs in the West is to stay on top in Russia, it also offers great opportunities to influence politics in the EU. Russian state companies or loyal oligarchs can give prominent Europeans well-paid board posts. One example is the supervisory board of Rosneft, which contains seven foreigners and it is chaired by Gerhard Schröder, whose official annual remuneration is \$600,000. Schröder is also chairman of the shareholders' committee of Nord Stream since 2005. Schröder is loyally supporting every Russian cause, and he is only one example. A number of East European politicians have suddenly altered their attitude to Putin after a one-on-one meeting with Putin, which arouses suspicions. Lithuania has impeached on president and ousted one prime minister because of illicit funding from Russian businessmen to the benefit of Moscow. The purchase of media, web sites, and social networks propagating official Russian causes is another activity.

Hundreds of thousands of Russians have emigrated to EU countries after Putin came to power. The vast majority is probably disappointed middle class who have made a reasonable amount of money but desire to live in freedom. In addition, many truly wealthy businessmen have emigrated after having fallen out with the Kremlin. Also the families of many top Kremlin

officials have emigrated abroad, primarily to London. It is often these more dubious elements that benefit from citizenship or residence by investment. The decent Russians obtain the right to residency in any case.

Since the Russian annexation of Crimea in March 2014 and its incursion into eastern Ukraine in the summer of 2014, the EU and US have responded with significant sanctions. Putin is quite transparent in his reactions to sanctions, clarifying what hurts him the most. Most of all he protested against the US adoption of the Sergei Magnitsky Rule of Law Accountability Act of December 2012, and he also protested sharply in public against the sanctioning of his friends Timchenko, the Rotenbergs and Kovalchuk by the US in March 2014. By contrast, he belittled the sectoral sanctions of July 2014, and he imposed his own “counter sanctions” on food for the Russian people in 2014. This tells us that Putin cares about the ruling elite, little about the nation, and not at all about his people.

My Atlantic Council colleague US Ambassador Daniel Fried, who was one of the US government promoters of the Magnitsky Act, says that “we did not realize how high up it would go.” Numerous senior law enforcement and tax officials were found guilty and sanctioned. In the end, Alexander Bastrykin, the head of the Investigative Committee (the Russian correspondence to the FBI) and a law school friend of Putin, was sanctioned on the Magnitsky list. After the adoption of the Global Magnitsky Act of December 2016, Artem Chaika, the son of the Russian Prosecutor General Yuri Chaika, was sanctioned. The Magnitsky Act exposed that Russia is an authoritarian kleptocracy, where all the main state law enforcement bodies work for the robbing of those who had become wealthy in a decent fashion.

We must not punish Russians for being Russians. On the contrary, we should offer Russian businessmen the choice: Do they want to be on the right side of history and the rule of law or do they opt for the Kremlin and its authoritarian kleptocracy. We should not only accept but welcome those wealthy Russians who stand up for good morals, while treating those who oppose the rule of law as they deserve.

The conclusion is that all the EU countries should proceed with personal sanctions going after Putin's cronies, oligarchs serving the Kremlin abroad, friends holding funds for Putin, and relatives holding fortunes for Putin. In addition, hardcore criminals from the Tambov and Malyshev gangs in St. Petersburg long allied with Putin should be sanctioned. Given the great impact of the Magnitsky Act and the Global Magnitsky Act, it would be advisable that all the EU countries adopt the Magnitsky Act and apply it with force.

The other line of action should be transparency in two regards. First, all the EU countries should demand that the ultimate beneficiary ownership of all assets within the EU should be made public to all in line with the Fifth Anti-Money Laundering Directive. Second, all public officials should be compelled to declare their assets, incomes and sources of incomes on an annual basis, and these should also be made public to all as has been the case for all people living in the Nordic countries since the 18<sup>th</sup> century.