



# HOW TO SELECT RUSSIAN OLIGARCHS FOR NEW SANCTIONS?

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# HOW TO SELECT RUSSIAN OLIGARCHS FOR NEW SANCTIONS?

## Introduction

This study seeks to explore and open the debate on how existing criteria for sanctioning Russian oligarchs can be used and interpreted and what new criteria can be added to current and possible future sanctions by the U.S. These deliberations will be illustrated with examples of individual oligarchs and their relevant links to the criteria.

It must be noted that even before any specific sanctions against Russia, U.S. government could in theory easily and without any additional laws target basically anyone in Russia using existing authorities (the same goes for many other authoritarian and kleptocratic countries). The U.S. can block the assets, restrict debt or equity dealings of basically anyone if it chooses to do so. And if there is someone they cannot get (an individual, entity, or transaction type) under existing laws, then this someone or something could be captured through a new Executive Order.



However, while the authority in principle was there, it was never used on any considerable scale before 2012. The executive power did not want to upset relations with Kremlin for political reasons. But since 2012 U.S. Congress has demonstrated growing demand for more sanctions, it incrementally gave broader

encouragement and additional new framework to target much wider circle of Russian officials and oligarchs.

The watershed point was last year with the adoption of the Countering America's Adversaries Through Sanctions Act (CAATSA) which, as we show, widely expanded views of the Congress of who should be sanctioned. This was a political, publicity and psychological move for audiences both inside and outside the country, including allies and adversaries, not just Russia.

In this study we will show how exactly this gradual encouragement proceeded and why and how the expanded criteria passed by the Congress can be used to counter Kremlin's adversarial behavior against the West.

## Background

It is notable to trace back the expansion of criteria under different sanctions against powerful individuals in Russia over the last six years, ever since the first sanctions under Sergei Magnitsky Rule of Law Accountability Act of 2012 were implemented under the Obama administration.

In a nutshell, the Magnitsky Act merely touched on a very narrow list of individuals: those involved in the case of incarcerating, torturing, murdering and covering up the murder of Sergei Magnitsky, the Russian lawyer who uncovered tax evasion schemes facilitated by the Russian government, and severe gross human rights violators, such as criminal officials in Chechnya who were involved in horrific physical abuses.

Then came Russia's war on Ukraine and in a series of consecutive sanctions, the U.S. government imposed sanctions on those officials and other individuals who directly participated in the annexation of Crimea and in the aggression in Eastern Ukraine or subsequently facilitated projects in those territories. Only half a dozen oligarchs – i.e. extremely wealthy individuals connected to Kremlin - were impacted by those sanctions and included exclusively Putin's old time St. Petersburg cronies.



Finally, after Russia's meddling in the U.S. elections was confirmed and acknowledged by the majority of members of the U.S. Congress, the criteria for sanctioning Russian officials and oligarchs broadly expanded in mid-2017 after the enactment of the CAATSA.

## CAATSA as a watershed in sanctions criteria

On January 29th, 2018 pursuant to CAATSA, the U.S. Department of the Treasury published the so-called Kremlin report, a list of Russian senior officials and oligarchs in the Russian Federation. This was not a sanctions list but essentially a warning<sup>1</sup> to all individuals involved that they are seen as part of Vladimir Putin's regime and may be sanctioned in future.

Under CAATSA, oligarchs are seen as integral members of the Russian ruling elite. Section 241 stipulates several metrics<sup>2</sup> to be used in the identification of them:

*(A) An identification of the most significant senior foreign political figures and oligarchs in*

*the Russian Federation, as determined by their closeness to the Russian regime and their net worth.*

*(B) An assessment of the relationship between individuals identified under subparagraph (A) and President Vladimir Putin or other members of the Russian ruling elite.*

*(C) An identification of any indices of corruption with respect to those individuals.*

So essentially the proximity to Putin and the Kremlin defined by some insider relations plus any significant documentation of actual corruption are enough in theory to put oligarchs on the list.

It is clear that CAATSA metrics are the broadest possible criteria of all sanctions that have been implemented since 2012 and they are open to a quite wide and different interpretation by U.S. officials responsible for compiling sanctions' lists.

It is inevitable, in our view, that U.S. policy-makers will be selective and criteria alone will not strictly guide the selection of who gets on the list. There seem to be just one important indicator among several other serious factors influencing decision-making.

At the same time, it does not mean that the selection of oligarchs for actual sanctions is arbitrary and random. Rather it is a combination of a) political considerations, b) economic impact on Russia versus economic impact on the U.S. and its allies, and c) applicability of a particular oligarch to the criteria regarding closeness to Putin defined by specific relations and/or corruption evidence.

For all sanctions against Russian officials and rich individuals around Putin before CAATSA, the U.S. Treasury is ready to stand trial in U.S. court if any sanctioned individual decides to challenge his or her applicability to the criteria. There is one precedent so far that is publicly available: the Prevezon case. This case officially dates back to 2013, when U.S. authorities sought to seize about \$14 million in assets from the company, which was registered in Cyprus and largely owned by well-connected Russian businessman Denis Katsyv.

Prevezon essentially tested U.S. prosecutors for claiming that Prevezon benefited from tax fraud and money laundering scheme from

1 <https://home.treasury.gov/news/press-releases/sm0271>

2 [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/hr3364\\_pl115-44.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/hr3364_pl115-44.pdf) (part 3)

Russia and for trying to seize assets under U.S. Magnitsky Act. In the end, in 2017 the two sides announced a settlement, with Prevezon admitting no wrongdoing and agreeing to pay \$6 million.<sup>3</sup>

Notably, it is unclear whether Russian oligarchs such as Oleg Deripaska and Victor Vekselberg can even try to test being sanctioned under CAATSA. They can in theory try to sue the U.S. government for libel after allegations of corruption were referenced in the explanation by the U.S. Treasury as part of the justification for their inclusion under sanctions. However, another part of the justification for these individuals was closeness and involvement in Putin's regime, therefore it was a political decision by the U.S. government on the grounds of national security. It is unclear whether oligarchs can challenge political allegations in U.S. courts even in theory.

In our view, in reality the main factor for sanctioning Deripaska and Vekselberg in April 2018 was political. The latter may have included not just their involvement in the inner activities of the Putin's regime but also their possible meddling in U.S. presidential elections. The U.S. government must have also concluded that Deripaska and Vekselberg's inclusion on the sanctions list would have relatively little economic impact on Russia (but would send a strong new signal that oligarchs from 1990's not from St. Petersburg Putin's clan may now face sanctions) and even smaller impact on the U.S.<sup>4</sup>

Another important observation about the April sanctions against oligarchs is that for the first time, the U.S. Treasury used as part of its justification references to corruption scandals around oligarchs that are not necessarily complete in the legal sense. For example, Suleiman Kerimov was referenced to be involved in tax evasion and corruption in France (where the case is ongoing).<sup>5</sup> Part of the explanation for Vekselberg's sanctioning included references to ongoing domestic cases

<sup>3</sup> <https://www.rferl.org/a/prevezon-settlement-money-laundering-u-s-defends/28915579.html>

<sup>4</sup> Notably, the initial calculation of the economic impact on U.S. allies in Europe was weak that is why after complaints from EU partners U.S. Treasury relaxed some of the sanctions' timelines for RUSAL.

<sup>5</sup> <https://home.treasury.gov/news/press-releases/sm0338>

by Russian prosecutors against two associates of the oligarch that were arrested for bribing officials connected to a power generation project in Russia (the case is also ongoing). Although these are not the main reasons for their inclusion, it is unprecedented that the U.S. government finally started to use references to ongoing corruption cases outside the U.S. or even Russia, something that Russian opposition activists have been suggesting for years.



This indicates that the U.S. government is now wary of the level of corruption within the Russian government which it essentially started to see as part of the system. It no longer wants to wait for the final decision of corrupt Russian courts on some of these cases or definitive legal conclusions from European courts, but simply wants to contain the U.S. from malign influence even if it is only potentially coming from individuals that are seen as part of Putin's oligarchic network. At the same time, there has not been a single oligarch who was sanctioned under CAATSA simply for his alleged corruption. Corruption has been used only as a secondary reason on top of being an official who is close to Kremlin or running a substantial industry in Russian economy.

All the above considerations about CAATSA bring us to the following important conclusions:

- The U.S. government has now embarked on the widest possible criteria for new sanctions.
- They may now include political elements defined broadly by national security considerations that are hard or even impossible to contest in U.S. courts, thus giving the U.S. government more leeway to sanction oligarchs but at the same

time opening a more contested internal deliberation between different factions in the executive and legislative branches.

- One particular political element may include meddling in the U.S. presidential elections, suggesting that the U.S. government may now look more closely at oligarchs involved in any serious form of subversion against democratic institutions and values of the U.S. or its allies.
- Corruption is now also interpreted in the broadest possible way and may include ongoing/unfinished investigations that simply add to our understanding that a particular oligarch is part of Putin's inner network. However, such a wide definition has not been so far used as a sole justification for inclusion under sanctions.

## **Recommendations for U.S. government on further interpretation of the CAATSA criteria**

Given our conclusions above, the U.S. government is facing a new phase on how best to further implement the broader criteria under CAATSA and has only started testing its own capacity. We believe that political considerations will dominate the selection process, ensuring from the U.S. national point of view that a) Russia gets the signal in the most efficient but limited way (incremental escalation) and b) in return the West experiences the least possible negative political and economic impact.

However, as mentioned above, U.S. government officials will inevitably face the problem of how to define proximity and involvement in the regime as well as corruption in Russia and political subversion in the West. We offer our suggestions with examples below and break them into two broader categories: a) criteria on negative activity within Russia and b) subversive actions in the West.

## **A. Participation in the inner circle and involvement with the regime in Russia.**

### **1. History of business relations of oligarchs and their associates with the officials and informal leaders propagating wars against Georgia and Ukraine or high-level representatives of the military industrial complex and security services who facilitated military conflicts that infringe on NATO's security.**

For example, Victor Vekselberg, who is already under sanctions, had business interactions with Sergei Chemezov, head of Rostech, state company, Putin's old KGB colleague and a key person in the Russian military industry



*Vladimir Putin meeting Sergei Chemezov. Source: Kremlin.ru*

(although this fact was never cited as a reason for his sanctions). In 2005 Vekselberg went to him and asked for his help in taking over a strategic entity called VSMPO-Avisma, a metallurgical plant that is responsible for around 70% of global production of titanium, including for military use. In just one year, after ramped up prosecutions from the General Prosecutor's office and FSB, control of the entity was essentially in the hands of Chemezov, with Vekselberg's Renova remaining a minority partner.<sup>6</sup>

Until recently, oligarchs from Alfa Bank were heavily involved in funding the Russian defense and military industry. In January this year they announced that in order to avoid sanctions Alfa Bank will stop such activity. However, for years before 2018, Alfa Bank provided substantial loans to subsidiaries of Uralvagonzavod (produces up to 40% of Russian

6 <http://www.forbes.ru/kompanii/tyazhelaya-promyshlennost/239263-zavhoz-iz-drezdena-kak-chemezov-vzyl-pod-kontrol-i-privat>



Vladimir Putin meeting RSP members. Source: Kremlin.ru

military equipment) and other affiliate entities of the Ministry of Defense and Chemezov's Rostechology.<sup>7</sup>

Before that Fridman's Alfa Bank provided financing throughout the 2000s to Atomstroyexport, the state-owned Russian nuclear vendor that installed the reactors at Bushehr, Iran, according to reports.<sup>8</sup> Alfa bank representatives also have a long track record of cooperation with Mikhail Fradkov,<sup>9</sup> head of SVR (Foreign Intelligence Service, Russia's analog of CIA) in 2007-16, and Vladislav Surkov, Putin's key advisor on propaganda.<sup>10</sup> It should also be noted that in 2014-2017 Alfa's key business unit in Russia was headed by Alexander Vinokurov, son-in-law of Minister Sergey Lavrov.<sup>11</sup> Notably, Alfa also employs Masha Faassen, Putin's elder daughter, in its subsidiary Alfa-Endo.<sup>12</sup>

## 2. History of business relations of oligarchs and their associates with organized criminal groups in Eurasia or involvement in criminal incidents.

Oleg Deripaska has been cited as being part of the Russian criminal network in April 2018 sanctions. Notably, it also hit Andrei Skoch,

7 <https://www.novayagazeta.ru/articles/2018/01/06/75080-ni-rublya-dlya-opk>

8 <http://nypost.com/2012/04/09/ny-jewish-leaders-biz-partner-has-iran-tie>

9 <http://2001.novayagazeta.ru/nomer/2001/82n/n82n-s15.shtml>

10 <https://web.archive.org/web/20140902152411/http://www.themoscowtimes.com/people/article/vladislav-surkov/433802.html>

11 <https://finparty.ru/personal/aleksandr-vinokurov/>

12 <https://www.occrp.org/en/daily/4877-new-investigation-sheds-light-on-putin-s-eldest-daughter>; <http://www.reuters.com/article/2015/11/10/us-russia-capitalism-maria-idUSKCN0SZ1DG20151110#1exov5f4EmMM0wuE.99>



a member of the Russian parliament whose father, Vladimir, is a part owner of a steel company and a shareholder in the investment conglomerate run by Alisher Usmanov, a close associate of Mr. Putin's, who controls one of Russia's largest phone companies.<sup>13</sup> Many media reports have linked Mr. Skoch to the Solntsevo gang.



Vladimir Putin meeting Roman Abramovich. Source: Kremlin.ru

In our view, this is a message to Usmanov himself. There are numerous investigations and media reports about Usmanov's history of connections with organized crime in the USSR, then through Gazprom corrupt acquisitions, the Shuvalov affair (allegations of bribes to Deputy Prime Minister) and villa gifting to Prime Minister Dmitry Medvedev.<sup>14</sup> The Shuvalov affair also included controversial money transfers through offshore accounts by Roman Abramovich and Suleiman Kerimov.

Under similar risk of being associated with organized crime are Iskander Makhmudov and his partner Andrey Bokarev. Spanish authorities named Makhmudov in a money laundering case, which they handed over to the Russian Attorney

13 <https://www.nytimes.com/2018/04/06/world/europe/russian-oligarchs-sanctions.html>

14 <https://www.underminers.info/publications/2017/12/3/profile-alisher-usmanov>

General's Office for further investigation. In March 2012 the case, which also implicates Deripaska, was sent to the investigative department of the Ministry of Internal Affairs. However, a Deripaska spokesman has reportedly said that the Spanish court's decision to send the case to Russia means that there is not enough evidence to prove the charges.<sup>15</sup>

Iskander Makhmudov's name also came up in the lawsuit concerning the aforementioned Deripaska and the Cherney brothers. Deripaska and Makhmudov signed an agreement of lawsuit with Cherney at the same time. According to Vedomosti, Deripaska and Makhmudov paid their ex-partner 200 million dollars each.<sup>16</sup>

Activist researcher Konstantin Rubakhin has argued that Bokarev and Makhmudov have had extensive interactions with representatives of Izmailovskaya criminal gang, including through documents from a witness that escaped the gang and participated in trials related to its activity in metallurgical business in Europe.<sup>17</sup>

The same witness, a fugitive member from criminal gangs, alleged that Alfa Group oligarchs and Victor Vekselberg had to do a shady deal with Iskander Makhmudov, Mikhail Chernoy and Anton Malevsky (key member of the Izmailovskaya crime group) over a legally questionable privatization and sale of oil and gas assets in Nizhnevartovsk in the late 1990's.<sup>18</sup>

Also recently Jose Grinda Gonzales, the Spanish prosecutor, said his team found that Alfa-controlled telecom entities in Spain paid inexplicable payments to son of Vladimir Kolokoltsev, Minister of Internal Affairs,<sup>19</sup> a message that previously figured in EU media.<sup>20</sup>

15 <http://www.svoboda.org/content/article/2220620.html>

16 [https://www.vedomosti.ru/business/articles/2012/10/19/plata\\_za\\_molchanie](https://www.vedomosti.ru/business/articles/2012/10/19/plata_za_molchanie)

17 [http://rubakhin.org/?page\\_id=867](http://rubakhin.org/?page_id=867); <https://data.occrp.org/text/2572901?dq=bokarev&page=1>

18 [http://rubakhin.org/?page\\_id=867](http://rubakhin.org/?page_id=867)

19 Previous version of this report incorrectly stated that Kolokoltsev stepped down as the minister.

20 <https://en.crimerrussia.com/corruption/associated-with-fridman-and-kolokoltsov-spanish-company-zed-searched>; <https://en.crimerrussia.com/corruption/bribes-from-zed-arrest-of-dutch-lawyer-in-madrid-linked-with-vimpelcom-and-russian-mia>.

Kolokoltsev's ministry was known to have stifled investigations against various criminal groups. For his involvement in Putin's regime he was sanctioned on April 6th, 2018 by the U.S.

Specifically, Petr Aven seems to have highly questionable personal relations with Putin since early 1990's. When Aven was Minister of External Trade in Yegor Gaidar's government he helped Putin, then deputy mayor of St. Petersburg, to cover Putin's criminal activity on export of rare commodities (evidence is publicly covered in the so-called Marina Salye dossier).<sup>21</sup>



Vladimir Putin meeting Petr Aven. Source: Kremlin.ru

In 1993, according to Karen Dawisha's book Putin's Kleptocracy, Kroll Associates wrote monthly reports to President Boris Yeltsin and its final report was presented to Supreme Soviet in September 1993. Direct quote: "the document recounted widespread instances of "bribery of officials, blackmail, and the illegal transfer of currency resources to foreign banks", including Minister Petr Aven."<sup>22</sup>

More recently, in 2008-09 Access, Alfa, Renova (AAR) shareholders of oil company TNK-BP - Victor Vekselberg, Len Blavatnik<sup>23</sup> and Alfa Group oligarchs - benefited from highly questionable corporate raiding of company with the help of FSB and other Russian government agencies. The raiding included unresolved poisoning of CEO Robert Dudley,

21 <https://www.svoboda.org/a/1972366.html>; <https://www.svoboda.org/a/1983851.html>

22 <https://books.google.com/books?id=9s2NCgAAQBAJ&printsec=frontcover#v=onepage&q&f=false> (quote on p. 19)

23 An important point about Blavatnik is that he is now U.S. and UK citizen and therefore cannot be placed under CAATSA sanctions as a Russia national. However, U.S. authorities have plenty of experience in investigating and prosecuting any Western nationals in accordance with relevant U.S. laws.





Mikhail Fridman and Alisher Usmanov in Kremlin. Source: Kremlin.ru

U.S. national and a senior western executive,<sup>24</sup> illegal copying of government documents from Russia and Ukraine<sup>25</sup> and other activity that would be considered criminal in any democratic state.<sup>26</sup>

Alfa Bank oligarchs are well known for brutal forms of corporate raiding in many incidents apart from TNK-BP and they have even extolled this form of “business” in Russian media.<sup>27</sup> One case stands out even among other questionable cases. In 2009-10 A1 and other Alfa affiliated entities raided a consumer electronics retailer company of Sergei Bobylev called Sunrise<sup>28</sup> and seized this business with the help of the corrupt law enforcement system.<sup>29</sup> Prior to that Bobylev received U.S. green card for his outstanding entrepreneurship, a very rare commendation from U.S. government but he decided not to use it and stayed in Russia to defend his honest reputation and business.<sup>30</sup> Alfa was behind Bobylev’s lengthy unlawful sentence to prison.<sup>31</sup> Among other corrupt law enforcement officials Bobylev’s criminal case was approved by two Russian officials – a senior investigator<sup>32</sup> and

24 <https://www.telegraph.co.uk/news/2018/04/29/bp-chief-poisoned-russia-plot-claims-former-colleague/>

25 <https://ru.krymr.com/a/27948191.html>

26 <https://www.svoboda.org/a/27349843.html>

27 <https://www.kommersant.ru/doc/2405351>

28 <https://www.reuters.com/article/us-russia-amnesty/glimmer-of-hope-for-russias-jailed-entrepreneurs-idUSBRE9680P420130709>

29 <https://www.svoboda.org/a/2217594.html>

30 <http://www.forbes.ru/-opinion/52794-kak-u-menya-otnyali-set-sanraiz>

31 Bobylev’s case has been so notorious that even Russian official business ombudsman Boris Titov took it upon himself to defend Bobylev in courts during various appeal processes (although he only tried to mitigate the verdict, not to challenge it completely)

32 <https://www.kommersant.ru/doc/1913674>

a judge<sup>33</sup> - that ended up on the Magnitsky sanctions’ list.

Finally, in 2016 Alfa-controlled telecommunications company Vimpelcom, Alfa Telecom and other entities admitted to U.S. authorities giving bribes to high level Uzbek officials in multiple jurisdictions.<sup>34</sup> What does this case tell about connections of Alfa with Kremlin and Russian security services/ organized crime? It is difficult to imagine them pulling this operation without Kremlin/ FSB tacit approval and use of illegal money laundering schemes. While there is nothing stated by U.S. Department of Justice on direct involvement of Alfa Bank oligarchs, it is clear that there has not been enough review of this issue in law enforcement and in the media.<sup>35</sup>

### 3. Participation in grand corruption projects or questionable contracts/deals funded by the state.

While this is somewhat related to the criterion #2 above, corruption around state contracts signified even closer and direct involvement with kleptocratic regime and merits a separate focus. However, this is arguably the most difficult part as corruption can only be determined by the courts and in Russia the courts and law enforcement system at the highest levels have become part of the corruption and kleptocratic schemes as numerous cases have demonstrated, including

the case of tax fraud uncovered by Sergei Magnitsky.



Roman Abramovich. Source: Wikimedia

We will list only most egregious and well-known cases in Russia, covered by the media and activists that merit further consideration

33 <https://www.novayagazeta.ru/articles/2010/07/26/2337-dokazhi-cto-tvoy-biznes-eto-biznes>

34 <https://www.justice.gov/opa/pr/vimpelcom-limited-and-unitel-llc-enter-global-foreign-bribery-resolution-more-795-million>

35 [https://www.occrp.org/corruptistan/uzbekistan/gulnara\\_karimova/the-prodigal-daughter/how-the-presidents-daughter-controlled-the-telecom-industry.php](https://www.occrp.org/corruptistan/uzbekistan/gulnara_karimova/the-prodigal-daughter/how-the-presidents-daughter-controlled-the-telecom-industry.php)

in the West among many other cases. Roman Abramovich received an inexplicable premium when he sold his oil company Sibneft to Gazprom. Construction of the Sochi Olympics



Vladimir Putin meeting Mikhail Kusnirovich. Source: Kremlin.ru

infrastructure involved numerous oligarchs who benefited from state contracts. Meanwhile, Mikhail Kusnirovich benefited from the secret lease of the central retail space opposite of Kremlin called GUM<sup>36</sup> and his company had supplied Olympic uniforms for the national team for years despite numerous complaints about its quality.<sup>37</sup>

Aleksey Repik is the latest member of Russia's Forbes list whose company R-Pharm and others have won unprecedented number of state contracts on medical supply to state facilities in Russia.<sup>38</sup> This is a person who extolls his connections with Russian security services and attended President Trump's inauguration.

AAR shareholders may also be put in this category as they have disproportionately benefited from Rosneft, a profit that is highly questionable. In 2012-2013 Putin personally managed and approved a deal on sale of TNK-BP to Rosneft, largest corporate deal in Russian history done through offshore jurisdictions. This deal saw unexplained 50% to the market price premium (around \$10bn) to AAR shareholders which they quickly moved to the West.<sup>39</sup> This was just nine months before the annexation of Crimea and done through offshore accounts, Putin himself criticized this deal for that in late

36 <https://navalny.com/p/4483/>

37 <https://versia.ru/milliarderu-mixailu-kusnirovichu-nameknuli-byt-skrornnee>

38 [https://life.ru/t/%D0%B7%D0%B4%D0%BE%D1%80%D0%BE%D0%B2%D1%8C%D0%B5/993224/pokier\\_na\\_ghostorghakh\\_s\\_kiem\\_druzhit\\_chtoby\\_poluchit\\_milliardy\\_iz\\_biudzhiet](https://life.ru/t/%D0%B7%D0%B4%D0%BE%D1%80%D0%BE%D0%B2%D1%8C%D0%B5/993224/pokier_na_ghostorghakh_s_kiem_druzhit_chtoby_poluchit_milliardy_iz_biudzhiet)

39 <https://openrussia.org/post/view/15547>

2013.

#### 4. Cover up of corrupt activity in Russia by Kremlin in exchange for subversive activity.

This is arguably one of the most difficult links to prove. A possible example that Robert Mueller's investigation is likely looking at is



Dmitry Rybolovlev. Source: Wikimedia

Dmitry Rybolovlev's case, an oligarch who made his money through controversial potash business in Russia. As

was told in Congress hearings last year, there are allegations that Igor Sechin, then top Kremlin official, covered Rybolovlev's back in a major environmental catastrophe in Perm region in exchange for Rybolovlev's loyalty in his operations in the West which possibly included helping Donald Trump in his financial bankruptcy.<sup>40</sup> Criminal links and subversion of Rybolovlev have not yet been proven and are mostly likely being reviewed by the U.S. authorities.

#### 5. Facilitation of Kremlin's infringement on democratic processes such as elections, takeover of independent press and control of internet.

This is one of the most political criterion that points to direct involvement in operations of Putin's regime. There are multiple reports on



Mikhail Prokhorov. Source: Depositphotos

how Mikhail Prokhorov, Boris Titov and Kseniya Sobchak are tied to the regime, helped Putin to stage fabricated presidential elections in 2012 or 2018 and got rewarded for their involvement.

40 <http://www.businessinsider.com/read-fusion-gps-glenn-simpson-interview-with-house-intelligence-committee-2018-1>

There are also multiple reports on how Boris Jordan, Alisher Usmanov, Alexander Mamut, Grigoriy Berezkin among other oligarchs helped to suppress independent media in Russia through acquisitions or takeovers of outlets critical of Kremlin. Konstantin Malofeev, already sanctioned in the West for his subversive activity against Ukraine, is one of the many oligarchs who helped Russian security services to suppress freedom of internet in Russia.

## B. Subversive activity in the West

### 6. Involvement in illegal trade operations with the help of Russian security services.

In 2005 an independent U.S. inquiry found Russian politicians and companies heavily involved in abuses of the UN's oil-for-food program in Iraq. The final report of the commission chaired by former U.S. Federal Reserve Chairman Paul Volcker found that among the companies making such payments were Alfa Eco, LUKoil, Zarubezhneft, and the Tyumen Oil Company.



Photos to the right: Petr Aven, Vagit Alekperov.  
Sources: Depositphotos, Kremlin.ru

Officials from most of them have denied wrongdoing but, according to the report, these companies have not provided any information refuting the records submitted to them by the commission.<sup>41</sup> Alfa Eco is an affiliate of the Alfa Bank, where Aven was top executive, while LUKoil is controlled by Vagit Alekperov and his associates.

### 7. Cooperation between oligarchs and Russian officials to advance cooptation and subversion of Western political elites.

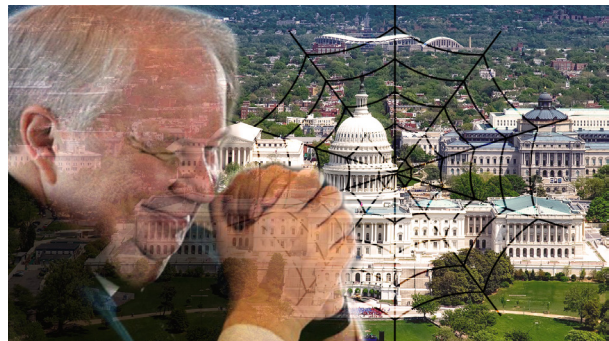
This includes influencing local political

41 <http://www.rferl.org/content/article/1062481.html>

discourse in a subversive and meddling way through grants, donations, media acquisition, paid content or ads.

These are mostly soft power issues that are very difficult to prove to be of criminal nature unless one can prove infringement of laws on lobbying or activity regulating foreign agents in the West. This type of activity should usually fall under scrutiny when it goes along with more sinister subversive actions described elsewhere in this paper.

For example, Viktor Vekselberg's Renova, Pyotr Aven and Mikhail Fridman's Alfa Bank, Len Blavatnik's Access Industries and his Blavatnik Family Foundation; Vagit Alekperov's



LUKoil Americas Corporation and Vladimir Yevtushenkov's Sistema have been extremely useful in operations of the Russian Embassy in Washington, D.C. in promoting narratives useful to Moscow, brainwashing U.S. students, coopting American establishment and penetrating leading think tanks with Kremlin propaganda.<sup>42</sup>

A recent study by Dallas News found that oligarchs with ties to President Putin funneled millions of dollars to Republican campaigns in 2016.<sup>43</sup> Direct contributions to powerful political players in the United States to deliberately push pro-Russia sentiments should be a red flag when deciding how to implement sanctions. The alteration of U.S. government policy via political donations or advertisements should be taken very seriously by all involved.

A contemporary example of this is Victor Vekselberg's payments totaling \$500,000 to

42 <http://www.4freerussia.org/kislyaks-spider-web-of-networks-of-oligarchs-and-putins-apologists-in-the-u-s>

43 <https://www.dallasnews.com/opinion/commentary/2017/12/15/putins-proxies-helped-funnel-millions-gop-campaigns>

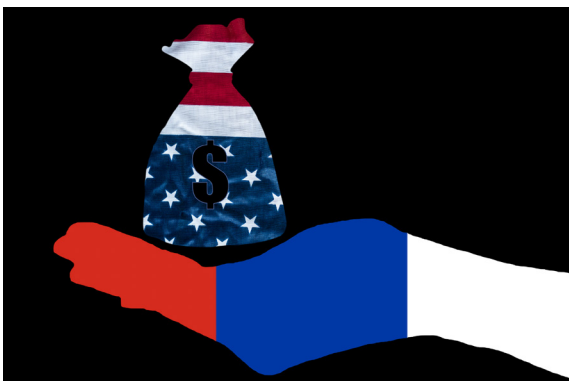
President Trump's personal lawyer Michael Cohen. Vekselberg disguised the payments through his US-based investment vehicle Columbus Nova. According to Trump associate and long-time friend of Cohen, Felix Sater, it was clear that Vekselberg was paying for access to the Trump presidency.

Another example of Russian-born oligarchs attempting to buy access in the U.S. political spectrum is Len Blavatnik and his aptly named company, "Access Industries". For more than two decades, Blavatnik has donated millions of dollars to both Democratic and Republican causes. In 2016, Blavatnik's large donations to the Republican National Committee earned him a VIP designation at the Republican convention, mingling with men and women who would go on to become government officials in the Trump administration.

These sort of payments to important political figures for the sole purpose of gaining access should be taken into consideration when deciding on sanction criteria.

**8. Documented contracts or co-optation of western dignitaries, politicians, celebrities or audit/due diligence entities for propaganda, reputation laundering or other clearly subversive goals useful to Kremlin and its kleptocratic networks.**

In Washington, D.C. and in London, Richard Burt, former U.S. ambassador to Germany, has been open lobbyist both for Gazprom-sponsored Nord Stream 2 gas pipeline project



and Alfa Group.<sup>44</sup> He has been promoting reputation laundering of Alfa Group oligarchs,

44 <https://www.politico.com/story/2016/10/donald-trump-campaign-lobbyist-russian-pipeline-229264>; <https://www.thedailybeast.com/is-muellers-eye-on-some-russian-oligarchs>

trying to present them as private businessmen independent of Kremlin, at multiple events and venues ranging from Congress, think tanks to business organizations.

There are many more examples of such activity for many other Russian oligarchs, one can just look at board of directors of many Kremlin-connected companies operating in the West.

**9. Any deliberate subversive activity of oligarchs against Western law enforcement, security services, tax authorities, due diligence or other legal or governance processes.**

When Russian oligarchs venture to expand their businesses into the West, it must be mandated that they follow the law of the land. If laws are broken, not only should they be held legally responsible, but the oligarchs should pay an additional penalty in the form of sanctions.

Take, for example, Aras Agalarov. As his wealth was growing in the 1990s, he expanded his businesses to include branches in the United States. Agalarov's trade show enterprise Comtek Expositions expanded to include a company incorporated in Connecticut. Soon thereafter, Comtek ran into trouble with U.S. federal authorities.



IRS auditors found that the company, Comtek Expositions Inc., had paid \$44,000 in income taxes over two years when it should have paid \$9.3 million, leading to a US Tax Court judge ruled in 2003 that Comtek had vastly understated its income and owed the IRS taxes, interest, and penalties.<sup>45</sup>

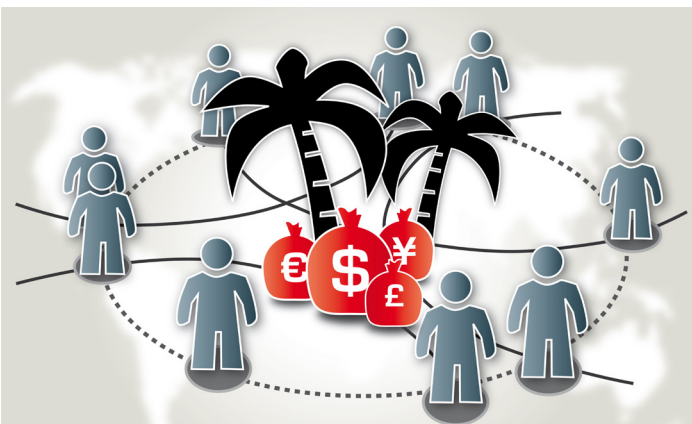
This type of blatant disregard for U.S. financial laws is unacceptable. Sanction law should be

45 [https://www.buzzfeed.com/thomasfrank/trumps-miss-universe-partner-in-russia-had-an-early-brush?utm\\_term=.vyW24MvL4#.pcRlEQxbE](https://www.buzzfeed.com/thomasfrank/trumps-miss-universe-partner-in-russia-had-an-early-brush?utm_term=.vyW24MvL4#.pcRlEQxbE)

interpreted in such a way where these types of offenses have consequences.

### 10. Possessing offshore companies and accounts with evidence of criminality.

It should be noted that the use of offshore accounts and companies is not by itself an indicator of any nefarious activities. There are a plethora of legitimate reasons for Russian oligarchs and others to have bank accounts in places other than their home country. Legitimate reasons to maintain offshore accounts include asset protection from lawsuits, limited tax liability, and reducing financial risk. However, when there are indicators of illegal activity associated



with these offshore shell companies and bank accounts in Russia and in the West, including some of the activities listed above, it is our view that this should constitute a strike when deciding on the application of sanctions.

After years of shifting their money to tax-havens such as Cyprus, the British Virgin Islands, and the Bahamas, Russian oligarchs have become notorious for not keeping their assets in their place of residence. In fact, it is rare to find any Russian billionaire who doesn't keep his assets in multiple offshore locations. According to The National Bureau of Economic Research, "There is as much financial wealth held by rich Russians abroad than held by the entire Russian population in Russia itself."<sup>46</sup>

Needless to say, the use of offshore bank accounts and companies has depleted the Russian economy of valuable assets and greatly undermined democratic institutions and values in the West. When assessing whether these

<sup>46</sup> <https://www.rferl.org/a/russia-offshore-wealth-capital-flight-income-inequality-report/28695293.html>

offshore entities have connections to any criminal activity we can assess a few different factors: the institutions with which the oligarchs do their offshore banking, the foreign directors who manage their business accounts, and the corporate structure of their companies.

- Banks
  - Which bank an oligarch chooses to use can say a lot about the type of activity in which he is engaging.

Example: Over the years, various sources including the U.S. State Department have regularly flagged its banking sector as being at high risk of money laundering. Bahamian banks and offshore companies have been linked to multiple cases of large-scale crime and corruption.<sup>47</sup>

- Authorized persons
  - When setting up an offshore business account, oligarchs often have proxies that are well known to the Russian elite. These local businessmen are usually lawyers who are well-versed in managing large sums of money.

Example: Alisher Usmanov's MegaFon has a subsidiary business located in Cyprus. The company is managed by a well-known lawyer named Christodoulos Vassiliades. Open source intelligence reveals that Vassiliades has set up numerous companies which have gone on to become embroiled in money laundering schemes and/or other financial crimes.<sup>48</sup>

- Corporate structure
  - The corporate structure of a major business in Russia can shed light on the activities and intentions of the oligarch. A sign of potential nefarious activity is the existence of dozens of shell companies under the umbrella of one major corporation. Such a structure can indicate that the beneficial owner is attempting to hide some aspect of the business. It can also be an indicator of the oligarch expecting to face lawsuits. By creating shell companies for each subsection of business, the wealthy Russian can

<sup>47</sup> <https://voices.transparency.org/its-official-the-bahamas-has-a-serious-money-laundering-problem-dcf5d6e1e11c>

<sup>48</sup> <https://medium.com/@ScottMStedman/trumps-moscow-developer-owned-by-bank-of-cyprus-lawyer-with-documented-money-laundering-ties-32ca121ff6c4>

protect any assets not directly involved.

Example: Oleg Deripaska's RUSAL has at least 19 active subsidiaries in Cyprus alone. These companies are in turn owned by other shell countries, leading to a Matryoshka doll-type corporate structure.

## **Additional measures**

It is our view that in addition to sanctions, the United States and governments around the world need to come together to create an international database of beneficial ownership.<sup>49</sup> There remains an untold number of companies in all corners of the globe that traffic in billions of dollars of dark money, with the true ownership of the assets masked by proxies. Russian oligarchs and others are able to hide from the public view the totality of their investments worldwide.

Several European countries such as the United Kingdom and Sweden have taken steps to ensure that the beneficial owners of every company are public. To stop the dangers of dark and potentially illicit money flowing globally, it is well past time to create an international register of beneficial ownership.

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49 We fully agree with measures proposed by the Kleptocracy Initiative, Hudson Institute who in their report Countering Russian Kleptocracy offer concrete steps to end anonymous companies in the U.S. and create modern anti-money laundering system through adequate legislation by the U.S. Congress. <https://s3.amazonaws.com/media.hudson.org/files/publications/CounteringRussianKleptocracy.pdf>

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Scott Stedman is a recent graduate of the University of California Irvine with a bachelor's degree in Political Science. His studies focused on American policy making. As a researcher and investigative journalist, Scott has been featured in Reuters, BBC, the Guardian, and other major publications. During the course of his investigative work, Scott has tracked Russian oligarchs and the flow of their money. He has become keenly aware of the practices of these Russian oligarchs and how their business models are structured



————— [www.underminers.info](http://www.underminers.info) —————

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