

**To the Ambassador Extraordinary and Plenipotentiary
of the United States of America to the Russian Federation**

Michael McFaul

**FROM THE OFFICE OF
THE CHAIRMAN**
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Your Excellency,

The passing by the US Congress of the Sergei Magnitsky Rule of Law Accountability Act is a milestone in what is still, unfortunately, a limited effort by the US Government to fight global corruption. According to opinion polls, most ordinary Russian citizens support the Act. They view it not as an "anti-Russian act," but as an effort to go after fraudsters and corrupt "turncoats in uniform" who participated in the embezzlement of billions of rubles from public coffers and got away with it. Sergei Magnitsky paid with his life investigating such corruption. I can only deplore the reaction by Russia's Foreign Ministry and State Duma, although I am sure that under similar circumstances, the American reaction would have been emotional and far from logical, too. This is a legacy of the Cold War-era "superpower complex," and it's about time our two countries left it behind.

The Magnitsky case is just one of many examples on a national and international scale, of Russian fraudsters and corrupt officials, and not even the biggest one. According to the Tax Justice Network, crooked businessmen in collusion with ranking *public officials with business interests* (aka DolBins in Russian) have embezzled and siphoned off at least \$700 billion from Russia over the past 15 years. This is less than 5% of the \$25 trillion stolen and laundered worldwide. This amount, on which the global financial oligarchy parasitically thrives, is equivalent to 50% of the planet's GDP!

The highest-profile "cases" in Russia and the CIS over the past few years have included embezzlements from the Bank of Moscow (more than \$4 billion), BTA Bank (\$6 billion), Mezhprombank (\$3 billion), VTB, Globex Bank, and Svyaz Bank (around \$3 billion), VEFK Banking Group (more than \$1 billion), Konversbank (more than \$0.7 billion), the Universal Savings Bank (around \$1 billion), Urin's banking group (more than \$0.5 billion), the Finance & Leasing Company (around \$0.4 billion), Elektronika Bank (\$0.4 billion), Rosukrenergo (around \$4 billion), Rosselkhozbank, Oboronservis (around \$0.25 billion), Rosagroleasing (around \$1 billion), Russian Capital Bank (\$0.2 billion), etc. These were all sophisticated schemes, on par with Bernard Madoff and Allen Stanford, Jérôme Kerviel from Société Générale and Ghana's native Kweku Adoboli from UBS, the subprime debt debacle, and the frauds at HSBC, Standard Chartered Bank, Goldman Sachs, etc.

Attempts by the international media, the public, and law enforcement agencies worldwide to put an end to the illegal activities and recover the stolen money face the same hurdle every time: corrupt officials and crooks siphon the embezzled funds off into foreign jurisdictions and then move abroad,

where they often go as far as claiming political refugee status. They then use lawyers, offshore jurisdictions, and banks. Taking them to court costs at least 15% of their loot plus years of litigation with no guaranteed result. The fraudsters claim political persecution at home, even though either their political views were unknown at the time, or they fully supported the current authorities (as in the case of Andrei Borodin, former Moscow Mayor Yuri Luzhkov, and his spouse).

Unfortunately, the United States has become one such “safe haven.” It was the United States that harbored the former Moscow Region Minister of Finance Alexei Kuznetsov, who along with his wife Janna Bullock organized the embezzlement of billions in public funds appropriated for the construction of social infrastructure, such as schools and kindergartens. Not only that, but this case even involves murders. Kuznetsov and Bullock are both US citizens (Bullock acquired citizenship in the 1990s through a “marriage” to an American and Kuznetsov was naturalized as her husband), which is an obstacle to their extradition. What should happen is that the Foreign Corrupt Practices Act should be used against these fraudsters. Leading news media have published evidence of the couple’s illegal activities. Another example: Ashot Yegiazaryan, a former State Duma deputy, is hiding from law enforcement on US territory. This individual was the boss of an organized crime group engaged in extortion and racketeering, and subsequently became an organizer of numerous frauds in the construction market. He now lives in California and is trying to obtain political refugee status. Why not use the RICO – the Racketeer Influenced and Corrupt Organizations Act – in this case? I was once personally a victim of his criminal activity and am prepared to testify in an American court.

I give an example of an investigation by The New York Times (by Pulitzer Prize winner David Kocieniewski) concerning General Electric’s tax shenanigans in the United States (<http://www.nytimes.com/2011/03/25/business/economy/25tax.html?pagewanted=print>). The company reported net profits of \$10 billion, and instead of paying a 35% tax rate, it claimed a tax benefit of \$3.4 billion. This is a global (read: offshore) corporation that is considered a US business icon! Of course, this kind of fiscal approach will cause the federal budget to come apart at the seams from the deficit. You and your country’s administration would be surprised to learn what interesting activities the numerous subsidiaries of this global company are engaged in in offshore jurisdictions (for instance, its subsidiary banks in Russia and Latvia).

On a broader issue it’s not only criminals from Russia that we are talking about. Corruption and fraud on a worldwide scale wouldn’t have been possible without a whole “dirty money” channeling, hiding, and laundering industry that is working in the interests of the crooks. They have numerous offshore jurisdictions, “havens,” special “investment banks,” and tens of thousands of the best lawyers and nominee company directors at their disposal. The British newspaper The Guardian ran a story on this recently (<http://www.guardian.co.uk/uk/2012/nov/27/russians-profit-britain-offshore-secrecy>). When someone steals more than \$1 billion and finds a shelter in such a “haven,” it is practically impossible to hold them liable. The more you steal, the less the unavailability of punishment.

Imagine American mega-fraudster Bernard Madoff taking time to set up “a second base,” siphoning the money he stole from investors in his Ponzi scheme off to offshore outfits in Kalmykia, and, after going bankrupt, fleeing to a US-unfriendly country claiming political asylum and posing as an opponent of the “US regime.” Do you have any doubt that in that case, he wouldn’t have been

serving a 140-year sentence in a North Carolina prison? He would have been living the good life without a care in the world, just like the former Kyrgyzstan chief Bakiev (in Belarus), former owner of Mezprombank Pugachev (in Monaco – the UK), the notorious “developer” Polonsky (in Cambodia), or the robber-banker Ablyazov (in UAE).

Once again, the above-mentioned Tax Justice Network has estimated the amount of “dirty money” stolen in different countries and stashed in secret accounts at \$25 trillion – half of the world’s GDP. This is a ticking time bomb under the global financial system. According to the European Commission, Europe alone harbored €1.2 trillion in “illegal proceeds,” including \$150 billion from Italy. The financial oligarchy is a tremendous threat to the stability of the global economy. It offers “mob protection”(krysha) to global corruption, which, like apartheid, is robbing entire peoples in Asia, Europe, and America of their futures. Secretary of State Hillary Clinton has recently politely borrowed this comparison from our newspaper to use in her remarks at a university. But is her speech really all that can be done?

In my opinion, it is only possible to resist this “new apartheid” through joint efforts of the leading powers, some of which have unfortunately turned themselves into a promised land for corrupt officials and fraudsters from all over the world. It is necessary to stop the practice of granting asylum to dirty capital and to clean up the offshore Augean stables, outlawing the practice of nominee ownership. Former British Prime Minister Gordon Brown talked about this at the G8 Summit in 2009. Isn’t this exactly what the G20’s Anti-Corruption Working Group, endorsed in Seoul, should be dealing with? Why isn’t the new 2010 US law on “illegal proceeds” working? What have the UN efforts resulted in? Why hasn’t the relevant EU directive been ratified yet (http://ec.europa.eu/home-affairs/news/intro/docs/20120312/1_en_act_part1_v8_1.pdf)?

At an international level, it is necessary to initiate the establishment of an organization with the broadest authority to investigate crimes of corruption and fraud linked to the cross-border movement of suspects and their capital. It is necessary to make the recovery of stolen and laundered money faster and cheaper – just look at the US Department of Justice that hasn’t been able to return the money stolen by former Prime Minister Pavlo Lazarenko from the Ukrainian people after ten years! I believe these proposals could be included on the agenda of the next G20 Summit. The Russian side is preparing them.

I am asking you to communicate my opinion to the US Department of State and the US Department of Justice.

I look forward to your reply

Yours sincerely,



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