PUTIN'S KLEPTOCRACY

WHO OWNS RUSSIA?

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these affairs also pointed to the role of Baltik-Eskort, the *private* security company that provided armed security for Putin and Sobchak and was said to be involved in collecting the *chyornyy nal* (black cash) that "make[s] the world go round" in St. Petersburg.[139] Baltik-Eskort was believed to be the cut-out that dealt with organized crime for the mayor's office. The company's owners, Roman Tsepov and Viktor Zolotov, "worked with the mayor's office to fulfill orders that could not be put in the hands of official law enforcement agencies."[140] The fact that Putin has kept Zolotov by his side ever since—raising him in May 2014 from head of his personal security detail to first deputy minister of interior and commander of the Internal Troops—underlines his view of Zolotov as someone who is absolutely loyal to him personally.

Putin and the St. Petersburg Real Estate Holding Co.

In April 1999 the German Federal Intelligence Agency, BND, completed an investigation and issued a report on money laundering in Liechtenstein in which it was alleged that a previously unknown Russian-German firm, the St. Petersburg Real Estate Holding Co. (SPAG), was heavily involved both in laundering Russian money and in laundering money from other sources, including the Cali drug cartel. Putin was listed as a member of the advisory board of SPAG. On May 13, 2000, only four days after his inauguration, police in Liechtenstein, acting on the BND report and working with their Austrian colleagues, arrested the Liechtenstein founder and leader of SPAG, Rudolf Ritter. Ritter also happened to be the brother of the economy minister of the principality, population thirty-five thousand. Copies of the report were obtained first by *Le Monde* and then by *Der Spiegel* and other European, American, and Russian newspapers. Only on May 23 did the SPAG website state that in anticipation of his inauguration, Putin had stepped down from the board.[141] So what was SPAG, and what did it do for and with Vladimir Putin?

From the beginning SPAG connected Putin with Vladimir Smirnov, and through Smirnov, with Vladimir Kumarin. Putin had already had business dealings with Smirnov in 1991, when he signed a contract with

Smirnov's Nevskiy Dom for the export of raw materials, as discussed earlier. Smirnov claims they had actually met before that, in Frankfurt in 1991, "where the question of attracting the first private investors to our city was decided."[142] In 1992 Putin and Smirnov were part of a trade delegation to Frankfurt, as a result of which, on August 4, 1992, they, along with partners from Germany and Liechtenstein, registered the St. Petersburg Real Estate Holding Co.[143] From the beginning, according to German commercial registry documents obtained by *Newsweek*, Putin was listed as a member of the advisory board,[144] along with three other St. Petersburg city officials, including German Gref.[145] Mayor Sobchak wrote a letter to SPAG, saying, "We support you politically and administratively," that was posted on the SPAG website.[146] The company issued an IPO in Frankfurt in 1998 (WKN 724440, ISIN: DE0007244402) and sold shares for almost 500 euros per share before they plunged to 35 euros in 1999 and then to .64 euros[147] when German and Liechtenstein police raided the company offices as part of a money-laundering investigation.[148]

As far as can be determined, the money-laundering scheme at SPAG worked in the following way: Money from all kinds of licit and illicit sources flooded out of Russia into a variety of Western banks and offshore accounts in the early 1990s. But these Russians also wanted to use this money to attract other money into Russia, so the question was how to launder it, use it as a honeypot to gather more investors, and then repatriate it so that it could be used to make legitimate property purchases inside Russia that would secure and legalize the wealth of the originators. The possibility also existed of purely scamming Western investors. As head of the Committee for Foreign Liaison, Putin could issue licenses for export that would allow foreign currency and commodities to pass through the border and issue import licenses for newly clean money to come back in. There were many who agreed with Boris Berezovskiy's claim that "as stated in the press, the 'roof' [*krysha*] of SPAG and Ritter personally in Petersburg was Vladimir Putin,"[149] and it is entirely reasonable to assume that, at a minimum, Putin lent his name to SPAG in order to increase money flows into SPAG and then into St. Petersburg and to lend the whole exercise respectability. Putin and Yuriy L'vov, the founder and president of the Bank of St. Peters-

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burg, set up the first foreign currency exchange bureau—evidently inside the mayor's administration offices at Smolny itself—in 1991 to facilitate these transactions, but also to garner further huge commissions.[150]* And as the Sal'ye Commission documented, there was hard evidence that the city attached a fee, ranging from 25 to 50 percent, in return for granting licenses. The KVS could also serve as a co-contractor, so that dividends and profits would be paid directly to the KVS for use by the city and its officials on an ongoing basis. Putin's KVS managed a massive flow of money, since in Russia in the early 1990s there were still severe foreign exchange controls. And given St. Petersburg's position as a port and frontier city, it played a very significant role in the overall exodus of money—foreign trade licensing being a key first step in capital flight at this time.[153]

The reputed head of the Tambov crime gang, Vladimir Kumarin, known throughout Petersburg at this time as "the Night Governor," got involved in two subsidiaries of SPAG, called Znamenskaya and Inform-Future. Both were licensed by Putin's KVS in July 1994,[154] and in both of them Smirnov was listed as a co-owner. Kumarin himself estimated that Putin had signed between eight hundred and eighteen hundred contracts during the early 1990s.[155]

The city of St. Petersburg was reported to have an initial 20 percent stake in SPAG,[156] and in December 1994 Putin signed an order giving Smirnov the right to vote "our" (the city's) shares. This was revealed in BND records leaked to *Newsweek*,[157] reprinted in Jürgen Roth's account of the role of Russian dirty money in Germany,[158] and reconfirmed in market analyses of the company, which shows that by 2000 the city's share had grown to 27.58 percent.[159] To safeguard and guarantee the deals, St. Petersburg officials were put on the advisory board. At least two German directors of the company confirmed that they had met Putin at least seven times

*L'vov's bank served as the preferred bank for most of the public institutions in St. Petersburg and was so successful that in 1993 it paid its shareholders over 1,000 percent dividends. L'vov became deputy minister of finance in the first Putin government.[151] St. Petersburg governor and Putin ally Valentina Matvienko also had an interest in the bank when her son Sergey became vice president, despite his having been charged in 1994 with robbery and infliction of bodily harm (Criminal Case No. 187898).[152]

in Frankfurt or Russia in the early 1990s.[160] But apparently, and perhaps unknown to the German banks that were involved, the company was used from the beginning as a vehicle for significant money laundering by Kumarin and the Tambov crime gang.[161] Writing for the *St. Petersburg Times*, Catherine Belton comments on the international press coverage of SPAG and on a book published in Germany by the investigative journalist Jürgen Roth: "Roth traces the German investigators' probe to two individuals, Boris Grinshtein and Peter Haberlach, both of whom are under suspicion of being the Tambov group's point men in Germany, according to his sources in German law enforcement. Investigators believe that one of the ways funds were laundered through SPAG was via share issues in the company. At least two companies connected to Grinshtein and Haberlach are pinpointed by Roth as having taken part in such deals. In December 1994, a firm called E. C. Experts Ltd., which was then headed by Grinshtein, bought shares in SPAG for 500,000 German marks. . . . Then in July 1995, it took part in another share issue, buying up 13,000 shares for 110 Deutschmarks each. . . . In October of that year, again according to Roth, [Rudolf] Ritter signed off on the sale of 10,000 shares for 140 marks each to a firm called ICI International Consulting Investments. Haberlach is a director of E. C. Experts and is also under investigation in Hamburg on allegations of human trafficking and running a prostitution ring. Haberlach's brother, Roth writes, is married to the former wife of Kumarin. Roth cites the BundesKriminalAmt (BKA), or German police, as saying it suspects 'ICI International Consulting Investment to have played a central role in founding SPAG and its affiliated companies and that through this company certain people also wielded influence over the chain of money flows into SPAG. The firm Euro-Finanz also appears to have played a similar role.' In what could be a vital link between the SPAG case and the case against Ritter for laundering Colombian drug money, Euro-Finanz is also identified in a Liechtenstein prosecutors' indictment against Ritter, a copy of which has been obtained by the *Moscow Times*." [162] At 1.6 Deutschmarks to the U.S. dollar, these total share purchases were worth about $1.7 million.

In 2000 SPAG's website proclaimed that the company had been

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given the right to be the only foreign investor in the real estate sector in St. Petersburg that could take the profits from its investments out of the country ("habilitée à récolter des investissements").[163] Such a move would have needed political capital and approval by the board, including Putin. Even in 2012 the website still maintained that SPAG was the only Western company authorized to invest in real estate and development projects in key strategic areas of St. Petersburg. So if someone wanted to invest in St. Petersburg and take his profits out of the country, SPAG would be the ideal vehicle. The investigators charged that deals were put together in which money from Russian organized crime was commingled with Western money, some of which was also being laundered from illicit activities, including from Colombia's Cali cartel. But some of it was legitimate investment from Western sources impressed with the fact that Putin was on the company's advisory board. German bankers were quoted as saying that they had agreed to work with SPAG in the 1990s and had handled its IPO partly because Putin was on its advisory board. The spokesman for the head of the German Baader Bank, which by 2003 owned 30 percent of SPAG, claimed that it had organized the firm's initial IPO in 1998 because "we thought it was good business if there was someone like Putin on the board."[164]

Putin's good friend and Ozero neighbor Smirnov was involved in every step of the process. He received contracts signed by Putin; he was one of the directors of SPAG; and he was the head of the two subsidiaries of SPAG in Russia, Znamenskaya and Inform-Future, in both of which Kumarin was also involved.[165] Kumarin and Smirnov, whose Rif-Security is said to have provided security for the properties of the Ozero Cooperative,[166] were listed as lead developers of two real estate ventures supported by SPAG. The Tambovskaya Business Center, which became the Inform-Future Business Center (located on Tambovskaya str., 12), advertised itself as the first business center built to Western standards—"24 hour security, fiber optic telephone system, internet"—with three thousand square meters of rentable office space and client support.[167]

The second property being developed by Znamenskaya was the Nevskiy International Center, on Nevskiy Prospect at Vosstaniya Square in a prime location across from the train station. Documents showed that the

St. Petersburg city government loaned Znamenskaya 1.5 billion rubles to resettle residents of communal apartments occupying that building, but when Yakovlev became mayor, he came after Znamenskaya for not repaying the loan, leading journalists to conclude that Smirnov had not been obliged to repay the loan as long as Sobchak and Putin were in office.[168] Kumarin confirmed that he had worked on the SPAG project and had worked to relocate the residents, but when he received the monopoly of the sale of gasoline in St. Petersburg (a monopoly granted by Putin), "we decided that we could make more money building gas stations, and I left the project."[169] The Nevskiy building stood empty for fifteen years, and yet SPAG company records show that SPAG continued to transfer funds to Znamenskaya for reconstruction of the building. Thus between October 1997 and July 2000 documents reproduced by *Novaya gazeta* show that 63.83 million Deutschmarks ($35 million) was transferred to Znamenskaya in twenty payments, over Smirnov's signature. This was self-service in the extreme in that he was signing for SPAG as a member of the board, authorized by Putin to vote the city's shares, and giving money to Znamenskaya, which he headed, for a project that was not being built.[170]

Putin's price for doing real estate deals generally was that 25 percent had to go into the city's coffers for infrastructural and social projects, but there is no evidence of his seeking any commission for this deal. But since the city was itself a co-owner, and he had a position on the board, he certainly did not need to extract a commission as a means to gain access to profits. The BND reports about Putin and SPAG circulated widely. U.S. government analysis of SPAG found clear evidence of Putin's involvement in money laundering, and in 2000, according to a *Newsweek* report, "U.S. officials . . . successfully lobbied for Russia to be placed on an international money-laundering blacklist. A key reason, said a former top U.S. official, was a sheaf of intelligence reports linking Putin to SPAG," including reports showing he "signed important St. Petersburg city documents for the company's benefit."[171]

The Ukrainian president Leonid Kuchma claimed he too was given the SPAG documents. (One can only speculate about why the BND would spread the good word about Putin at a time when its own investigations

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were reportedly stalling under political pressure at home as the new German chancellor Gerhard Schröder took office.)[172] Kuchma then had to decide whether to turn them over to Putin, whose security chief, Nikolay Patrushev, was furiously trying to manage the fallout from Putin's name being linked to criminal money-laundering charges in Germany. We know all this because Kuchma's presidential guard famously made audio recordings that implicated Kuchma in many illegal actions, including the death of a journalist. But the recordings also reveal interesting details about Putin's role in SPAG and, more important, the role of his security services in handling matters behind the scene. The first conversation, between Kuchma and his security chief Leonid Derkach, took place in Kyiv on June 2, 2000:

Derkach: Leonid Danilovich [Kuchma]. We've got some interesting material here from the Germans. One of them has been arrested.

Kuchma (reading aloud): Ritter, Rudolf Ritter.

Derkach: Yes and about that affair, the drug smuggling. Here are the documents. They gave them all out. Here's Vova Putin, too.

Kuchma: There's something about Putin there?

Derkach: The Russians have already been buying everything up. Here are all the documents. We're the only ones that still have them now. I think that [FSB chief] Nikolay Patrushev is coming from the 15th to the 17th. This will give him something to work with. This is what we'll keep. They want to shove the whole affair under the carpet.[173]

The second conversation took place two days later, when Kuchma and Derkach decided to keep the documents, clearly to use as leverage at some future time:

Kuchma: The handover should only take place with the signature of Patrushev. This really is valuable material, isn't it?

Derkach: About Putin?

Kuchma: About Putin.

Derkach: Yes. There is some really valuable stuff. This really is a firm, which . . .

Kuchma: No, tell me, should we give this to Putin, or should we just tell him that we have this material?

Derkach: Yes, we could. But he's going to be able to tell where we got the material from.

Kuchma: I will say the security services; I will say that our security service has some interesting material.

Derkach: And we should say that we got it from Germany, and that everything that exists is now in our hands. Otherwise, no one else has it, yes? Now, I got all the documents about Putin prepared to give them to you [Putin].

Kuchma: Probably, if that's necessary. I'm not saying that I will personally hand them over. Maybe you'll give them to Patrushev?

Derkach: No. I'll just . . . when we make a decision we'll have to hand them over anyhow because they've bought up all these documents throughout Europe and only the remaining ones are in our hands.

Kuchma: Or perhaps I will say that we have documents, genuine facts from Germany. I won't go into details.

Derkach: Hmm.

Kuchma: I will say, "Give your people the order to connect with our security service." And when they get in touch with you, you say, "I gave it to the president, damn it. And I can't get it from him now."

Derkach: Good.

Kuchma: We need to play with this one.[174]

In July 2001 two of SPAG's founders, Eugene von Hoffer and Ritter, were indicted in Liechtenstein of money laundering and using shares in SPAG to scam foreign investors, including Americans—Ritter received

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one year probation and von Hoffer eight years on this and an additional charge.[175] Meanwhile in Russia, Putin named Gref his economic development minister and Smirnov head of the Presidential Property Management Department and then director general of Tekhsnabeksport (Tenex), which is responsible for all Russian state exports of goods and services for the nuclear power industry, including the U.S.-Russian Megatons to Megawatts program and the building of the Bushehr nuclear reactor in Iran.[176]*

Given the political sensitivity of the investigation, the Germans moved slowly and cautiously. German newspapers stated that Chancellor Schröder personally kept Putin informed about the investigation.[178] Three years after Putin was elected president and his name had disappeared from the company's roster, the Germans finally raided twenty-seven offices and banks associated with SPAG in Germany alone. Sources in the investigation said that the raids were "in connection with people who worked at [SPAG] in the '90s" suspected of laundering "tens of millions of euros" for "one of the biggest and most powerful" Russian organized crime groups involved in "numerous crimes, including vehicle smuggling, human trafficking, alcohol smuggling, extortion and confidence trickstering."[179] Putin's name did not appear in the indictments, and Ritter pled guilty on a lesser count. German observers concluded that as long as Schröder was chancellor, even at one point calling Putin a "flawless democrat,"[180] Putin would not face another hostile investigation.[181] Even more, intelligence experts claim that Schröder handed Putin a BND file during his trip to Berlin on February 10, 2003, containing the results of a BND investigation into the company IWR, which had been involved in the disappearance of East German Communist Party funds prior to reunification. They found that Bank Menatep, owned by Mikhayl Khodorkovskiy, had possibly been involved, giving Putin the information needed to charge Menatep leaders with money laundering.[182]

*In 2005 *Novaya gazeta* came into possession of documents purporting to show that Tenex had set up a subsidiary in Germany for the purpose of representing Tenex interests in selling nuclear fuel and nuclear technology but also for the purpose of continuing to launder money.[177]

Schröder was made head of the shareholders' committee of Nord Stream within months of leaving office. Nord Stream was headed by Putin's longtime friend, the ex-Stasi officer Matthias Warnig. Schröder and former Italian prime minister Silvio Berlusconi were the only Western leaders prominently present at Putin's 2012 inauguration.

The massive SPAG site at 114–6 Nevskiy Prospekt on Vosstaniya Square was renovated and then sold to the Finnish company Stockmann only in 2005,[183] and a luxury mall opened there in 2010. In 2012 SPAG's website still insisted that "the Company is the only Western company authorized to invest in real estate and development projects in key strategic areas of the municipality of St. Petersburg, northwestern Russia."[184] The stock's volatility continued, as when, on February 1, 2007, the stock collapsed, plunging from 412 euros to 44 euros the next day, despite gains in the European markets. Investors rebelled, calling an emergency general meeting to prevent the board from using company funds to launch a legal defense.[185]

As for Putin, his involvement in SPAG was public, and even leaving aside whether he benefited personally from his association, his presence on the advisory board had the multiple effect of allowing Russian money to flow into SPAG, attracting licit and illicit Western money through the surety of his association with the company, supporting the provision of properties for investment, and providing the use of St. Petersburg city funds for the relocation of residents. He resigned from his position on the board only on May 23, 2000, well after becoming president. German investigators did not pursue the link with Putin, and the case against him fizzled.

Putin and the Petersburg Fuel Company

As with Putin's connection to SPAG, his involvement in the establishment of the Petersburg Fuel Company (Peterburgskaya Toplivnaya Kompaniya, PTK) features his tight circle of collaborators from the mayor's office, organized crime, Ozero Cooperative members, and former KGB members. PTK was licensed by Putin in August 1994 when he was first deputy mayor. Vladimir Smirnov and Vladimir Kumarin were partners in the company,

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along with Vadim Glazkov, a Leningrad native who knew Putin from the KGB and the mayor's office,[186] and Viktor Khmarin,[187] a St. Petersburg lawyer who was a friend of Putin and the brother of Putin's first fiancée.[188] Company records indicate that founding shares were held by twenty-one different companies and government agencies, including Bank Rossiya, the insurance company Rus' (which included Arkadiy Krutikhin, the former head of the property management department of the Leningrad *oblast'* committee, Vladislav Reznik, and Aleksey Aleksandrov—all of whom had also been involved in the founding in 1991 of Bank Rossiya), and both the St. Petersburg and Leningrad *oblast'* committees for property management.[189]

In January 1995 the city signed a series of agreements with PTK giving it the exclusive right to supply gasoline to the city's entire fleet of vehicles, from ambulances to buses and cars,[190] to build a chain of gasoline stations throughout the city, and to "participate in the formulation of policies of the St. Petersburg Mayor's Office in the area of [gasoline] supply."[191] Russian media sources reported that the PTK brought together the city administration and the Tambov and Malyshev criminal groups.[192] Il'ya Traber, who controlled both the antiquarian market in the city and held a major interest in the St. Petersburg port, also was involved, and the Tambovs' Kumarin returned to Petersburg in early 1996 after being badly wounded in a turf battle there. It appears this was one area where rival groups ultimately cooperated for their mutual benefit, which allowed them to fix prices, evade taxation, and skim deliveries,[193] against the interests of St. Petersburg citizens who suffered from higher prices and poorer quality. In this way the city administration allowed itself to be captured by criminal elements, presumably as in such cases worldwide, for their mutual benefit. Thane Gustafson, whose book *Wheel of Fortune* provides an extensive study of Russian oil, summed up the political forces at work in St. Petersburg: "The local fuels business was a rich source of off-the-books cash, and therefore it was quickly penetrated by organized crime, typically with the behind-the-scenes backing of city officials and local law-enforcement agencies."[194] The Russian investigative reporter Roman Shleynov states:

> The PTK was the nexus of the interests of those described as members of the Tambov group and the pool of Vladimir Putin's cronies who today control the country's key assets. At the time the PTK was set up in 1994, the shareholders included Bank Rossiya, whose co-owners were [Putin's] long-time cronies, who had founded the Ozero cooperative together with him: Yuriy Koval'chuk and Nikolay Shamalov. Interestingly, Gennadiy Petrov, who has since been arrested in Spain, was a shareholder of Bank Rossiya in 1998–1999. Another shareholder in PTK was the Piter Information and Legal Office, in which Il'ya Traber had a stake. The structure of PTK's assets and management had changed by 1998. According to the company's records, another mate of Putin's, Vladimir Smirnov (co-founder of the Ozero cooperative) became chairman of the Board of Directors, while Vladimir Kumarin, who is now under investigation, became a vice president.[195]*

Novaya gazeta's investigative reporter Roman Anin concluded in 2011, "Although the city's Property Management Committee had the biggest (14%) stake in the PTK, if the shares owned through various entities by Gennadiy Petrov, through various structures together with Vladimir Kumarin (even though Kumarin was not officially a shareholder) are aggregated, they owned the petrol monopoly, which enjoyed serious protection from the St. Petersburg mayor's office and Vladimir Putin himself."[197]

This group held wide sway in St. Petersburg while Putin worked there and after he left. To be sure, it might not have been possible to establish a more competitive market given the propensity by rival groups to use violence. It is, however, notable that the city authorities, including Putin, worked with, strengthened, and ultimately legitimized the crime families

*A further 5 percent of the PTK went to Viktor Khmarin, Putin's close associate and friend, through the company Vita-X. Bigger stakes went to ZAO Petroleum (12 percent), affiliated with Gennadiy Petrov, and the Baltic Bunker Company (12 percent), which had links with Petrov, Traber, and Dmitriy Skigin, who was expelled from Monaco in 2000, according to police officials there, for links to the Tambov crime family.[196]

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