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Expert Group "Fighting Transborder Corruption"

Russian "Black Money" in the EU: Indicators of Transborder Corruption

Report

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Russian "black money" in the EU: indicators of transborder corruption
Analytical report
Expert Group "Fighting Transborder Corruption"
EU-Russia Civil Society Forum

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Table of Contents

Foreword: New international tools needed to tackle globalized corruption <i>Andrey Kalikh</i>	1
How to understand and how to counter transborder corruption <i>Vladimir Rimsky</i>	3
Nontransparent and dubious actions during the construction of the Nord Stream gas pipeline <i>Grigori Pasko</i>	9
Transmashholding: from Russia with corruption <i>Konstantin Rubakhin</i>	23
Conclusions and recommendations	33
Colophon	37

Foreword

New international tools needed to tackle globalized corruption

Andrey Kalikh

Coordinator of the Expert Group
“Fighting Transborder Corruption”,
EU-Russia Civil Society Forum

The analytical report «Russian “black money” in the EU: indicators of transborder corruption» is the second research report prepared by members of the working group «Fighting transborder corruption» of the EU-Russia Civil Forum in the last six months.

The first report, presented by the working group in June 2015 at the meeting of the European Economic and Social Committee in Brussels, investigated examples of the participation of European investments in two schemes on the territory of Russia: the construction of a copper-nickel mine on unique fertile soils in the Central black soil region on the Khopyor river in the Voronezhskaya oblast, and the construction of an oil terminal on the Taman peninsula on the Black Sea coast. Both cases revealed that nontransparent projects implemented counter to environmental and social norms had led to serious deterioration in the environmental situation and violation of the rights of the local community.

This new report considers the reverse situation. It includes examples of the use of nontransparent investments by Russian corporations linked to the government on the territory of the European Union. The first case deals with the construction of the Nord Stream (a Baltic seabed gas pipe connecting Russia and Europe) by “Gazprom” and its European partners. The second case deals with “Transmashholding” and its business activities in EU. In both cases, the authors – the Russian civil society activists and investigators Grigory Pasko and Konstantin Rubakhin – describe the indicators of transborder corruption in projects involving European firms affiliated with Russian partners who act as participants & security guarantees.

The working group “Fighting transborder corruption” was established in 2014 on the initiative of a number of Russian and European activists, journalists and NGO

representatives as one of the EU-Russia Civil Society Forum's expert platforms. The group aims to counteract corruption, as it globalizes and crosses borders together with business, finances and technologies.

The present report understands "transborder corruption" as the participation of Russian and European companies, state officials and businessmen in joint (transborder) investment, infrastructure or construction projects that show signs of corruption. Experts have paid special attention to the investigation of human rights violations and environmental losses or damage in such projects. Transborder corruption shows itself in the accumulation of nontransparent capital in the banks of foreign countries, using EU financial institutions and corporations for money laundering, bribing European officials or businessmen etc. For more details on the phenomenon of transborder corruption, see the article by Vladimir Rimsky "How to understand and how to counter transborder corruption" on page 3.

The Russian case is unique for investigators of transborder corruption – it is a country that displays accumulated phenomena of "seizure of the state", an economy of "families and friends", great state dependence on oil and gas export, and an unequalled affiliation of power and business. The ease of earning money in Russia by improper means, violating civil rights and freedoms as well as sanitary and environmental norms has resulted in the invasion of the country by many dishonest entrepreneurs and officials from around the world, alongside transparent foreign investment.

At the same time, Russian officials and oligarchs have always considered Europe a safe harbor for their assets, given the strict rules for security and secrecy of bank accounts in place there. Nowadays, the European community is realizing the need for instruments to track the flows of large private capital from abroad in order to prosecute foreign corruptionists. This was facilitated, in the first hand, by the adoption of the UN Convention against Corruption in 2003. Article 20 calls for parties to the Convention to adopt legislation foreseeing criminal persecution for illicit enrichment, i.e. "a significant increase in the assets of a public official that he or she cannot reasonably explain in relation to his or her lawful income". The Article 20 was not ratified by Russian Federation.

To fight against transborder corruption effectively, the creation of new international and national instruments allowing the prosecution of corruptionists all over the world is necessary. Experts in this working group see a great need for the governments of the EU countries and Russia, as well as international organizations, to adopt laws allowing the identification, investigation and prosecution of the final beneficiaries of corrupt schemes, along with the removal of their benefits, irrespective of their citizenship, origin or any differences in their national legislations.

How to understand and how to counter transborder corruption

Vladimir Rimsky
Head of the Department of Sociology
INDEM Foundation
Russia

Globalization, as the world's process of integration of national and regional economies, engages the majority of the countries in the world. Globalization has become one of the most important factors in the global economy and in national economies; it is one of the most important conditions for the competitiveness of economies, economic growth and solutions to a variety of social, economic and political problems.

Globalization, however, has not only positive, but also negative consequences for both the global economy and politics – and for national economies and the political processes at the national level. One of the significant challenges for globalization is the growth of corruption around the world and the involvement of the majority of countries and national economies in it.

It can be assumed that the process of globalization has led to the globalization of corruption. In this globalized world, transborder corruption has become a very meaningful phenomenon, but one that is yet to be analyzed sufficiently. The term is not yet widespread, in some cases it is identified with world or global corruption. Legal qualifications of transborder corruption are under-developed; the OECD Convention on Combating Foreign Bribery¹ only covers part of the phenomenon. Mention can also be found in some international instruments, such as the Technical Guide to the United Nations Convention against Corruption.²

Transborder corruption can be understood as the phenomenon of corruption having a transborder nature, transfer phenomena of corruption practices across borders from

¹ Official name: OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions <http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

² Technical Guide to the United Nations Convention against Corruption. United Nations Office on Drugs and Crime Vienna. 2009. P. 83:
http://www.unodc.org/documents/corruption/Technical_Guide_UNCAC.pdf

one country to another country bordered by it or bound with obligations for the implementation of joint projects and programs.

Transborder corruption can be considered a form of what is called 'the contagiousness of corruption', i.e. the social phenomenon of animation, multiplying the effect of corruption at the expense of growth in the number of transactions, wealth and corruption of persons involved in them.³ The contagiousness of corruption develops because corruption practices are spreading, as are the development and use of corruption activities between actors cooperating in economic and other activities. The contagiousness of corruption is manifested in the assimilation and use by individuals, citizens or officials of corrupt ways in their activities, watching others using them, participating in such activities, learning them in practice, exchanging experiences of corruption deals, and perhaps in other ways as well. As a result, corruption involves more and more citizens and officials, and consequently raises both the level of corruption and public danger from its effects.

The effect of the contagiousness of corruption in the modern world is very noticeable in the regions that geographically unit adjacent countries.⁴ As a rule, in such countries, the levels of corruption are close or do not vary much. There are certainly exceptions to this pattern, when any country in the region – such as Singapore in Southeast Asia – becomes a lot cleaner regarding corruption than the surrounding countries. However, such cases are relatively rare – indeed they are the exceptions.

Studies show that the spread of corruption among regions occurs for three main reasons.⁵ Firstly, due to the integration of economies as globalization develops and the growth of business activity that promotes the growth of corruption together with the intensification of business contacts. Secondly, as a consequence of the transborder activities of organized crime groups, who retrieve considerable income from participating in corrupt transactions. Thirdly, because of the reinforcement of perceptions and the growth of expectations on the part of the citizens of some countries regarding the possibility and even necessity of involvement in corruption transactions on the basis of monitoring and experience of the involvement in corruption activities of other citizens in the neighboring countries.

It should also be borne in mind that, in the context of globalization, joint commercial or public projects are often implemented by state representatives located in different regions of the world. This frequently increases the effect of corruption contagion, with the representatives of one country bringing the corrupt practices they have developed into another one.

One would have hoped that the representatives of developed countries in the world would not be involved in corrupt practices in the less developed countries and regions

³ Bortsev V. Corruption: contagiousness, consequences and methods of counteraction: thesis... candidate of economic sciences. M. 2014.-151 p.

⁴ Bortsev V.V. Contagiousness of corruption: the spread between regions//Russian enterprise. — 2013. No. 12 (234). — P. 157-162: <http://www.creativeconomy.ru/articles/29070>.

⁵ Becker S.O., Egger P, t. Seidel Common political: Evidence on regional contagion corruption//European Journal of Political Economy. -2009. -Vol. 25.-NO. 3. -P. 300-310.

and would not support corrupt practices in them. Unfortunately, this is not always the case, as shown in the examples of transborder corruption presented in this report.

Transborder organized crime tends to be of a continuous nature, using considerable amounts of resources, including money, often employing legitimate private business channels that are very diverse in their manifestations. It is also highly protected from civil and social control, and is secured from state control by the use of corrupt practices, such as giving bribes and buying over public service officials. Typically, transborder criminal networks have links with similar organizations in their country and in neighbouring countries, thereby contributing to their fairly quick adaptation to the supervisory and regulatory impact of the executive authorities in their own and neighbouring countries, the police and other law enforcement agencies.

Therefore, the authorities in modern states in the regulation of transborder crime are directing their border services activities, law enforcement officers, courts and executive authorities to resist organized crime first and foremost. Meanwhile, considerably less of the state's attention is attracted by the activities of private businesses with regard to their interaction with the executive authorities, courts, law enforcement and other agencies. However, in conditions of pretty tough competition, legal private businesses find it more profitable not to abide by the rule of laws, avoiding them for the sake of realizing their own private interests and ensuring their competitive advantage through corrupt activities.⁶ Moreover, when competitors in the private sector use acts of corruption to win contracts, it is primarily state and municipal private businesses who are operating legally who suffer losses and become more likely to commit various corrupt practices in order to successfully compete with corrupt businesses. Thus, the contagiousness of corruption contributes to the expansion of corruption practices in the private sector and the authorities relating to this sector. This type of contagious corruption significantly promotes transborder corruption practices across the world.

To counter transborder corruption, nation states must coordinate their efforts, anti-corruption strategies and tactics. If there is no such coordination or if it fails to be effective, firstly, corrupt individuals and organizations will exploit the differences between the legislation of different states, and, secondly, their law enforcement agencies under the jurisdiction of their states would be limited in their ability to counteract corrupt officials. Unfortunately, the inefficient coordination of countering transborder corruption is often exactly what is taking place in different countries around the world. This is most often due to the law enforcement agencies of these countries choosing not to prosecute crimes committed abroad, viewing them as being outside the agencies' responsibility. In cases of transborder corruption, such exclusion from the area of responsibility leads to corruption growth in those particular countries, due to the contagiousness phenomena. Therefore, the inefficient coordination of law enforcement agencies from different countries in combating transborder corruption contributes to the spread of its practices in various regions around the world.

⁶ Andrianov V.D. Corruption as a global problem: history and modernity/ V.D. Andrianov. -Moscow: Economy, 2011. -P. 48-51.

The coordination of transborder corruption counteraction in the European region is primarily carried out in order to counteract international and other forms of crime. Firstly, such coordination is ensured by the system of bilateral agreements that is in place – in particular, to provide assistance to each other in the field of criminal and civil justice, the interaction of the investigative and judicial authorities, and the mutual extradition and transfer of convicted persons to serve their sentence in the country of which they are nationals. Secondly, this coordination is accomplished by using the development and ratification of UN conventions, the Council of Europe and the OECD – in particular, the UN Convention against Transnational Organized Crime of November 15, 2000; the UN Convention against Corruption from October 31, 2003; the Council of Europe Criminal Law Convention on Corruption from January 27, 1999 and of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions from November 21, 1997. All these conventions have been ratified by the Russian Federation.

The last Convention mentioned above – the OECD Convention of November 21, 1997⁷ – is directly related to the counteraction of transborder corruption. In accordance with paragraph 1 of Article 1 of this Convention, each Member State, “in accordance with its domestic law shall take the necessary measures to establish as a criminal offense the intentional offer, promise or giving of any person directly or indirectly any unlawful property or other benefits to a foreign official, in favour of such an official or a third person in order to make that official perform or refrain from performing his or her official duties to obtain or retain business or other improper advantage with regard to the implementation of international commercial transactions”. Similar provisions are included in Article 15 "Bribery of national public officials" and Article 16 "Bribery of foreign public officials and officials of public international organizations" of the UN Convention against Corruption.⁸

Thus, under the rules of those two Conventions, an offense can be deemed to have been made for reasons of corruption merely through improper benefits having been offered or promised, regardless of whether it is proved that such benefits to one or other side of the corrupt deal came about. Such rules are included in these conventions because it is often impossible to legally prove a person’s participation in the committing of corrupt acts because of the stealth character of such actions – they are usually known only to the direct participants, who, for their own safety, do not disclose such information. At the same time, in accordance with the provisions of Article 9 of the OECD Convention of November 21, 1997 it is granted as essential that the national legislation of each state party include rules for mutual legal assistance "in criminal investigations and judicial proceedings in relation to a party to proceedings in the framework of this Convention and non-criminal prosecutions brought by the party against a legal person. The party, requested by the other party, is promptly to provide any additional information or

⁷ The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Organization for economic cooperation and development (OECD). Paris, December 17, 1997. Pravo Ru: <http://docs.pravo.ru/document/view/32615578/34948761>.

⁸ UN Convention against Corruption: http://www.un.org/ru/documents/decl_conv/conventions/corruption.shtml.

documents necessary to satisfy the request of assistance and, when required, data on the status and results of the implementation of such a request”.⁹

Despite these agreements, the fight against transborder corruption is not always effective. Firstly, states are always forced to act within the law, while criminals do not respect them, reacting more flexibly and quickly to the actions of law enforcement agencies and often managing to forestall such actions. Secondly, legal private businesses involved in transborder corruption almost always act so discreetly that it becomes extremely difficult to obtain legally sufficient evidence of crimes or offenses by legal means. Thirdly, effective combating of transborder corruption by nation-states is largely hindered by diverse manifestations of globalization of the economy – distribution of goods, services and finance transfers between states and regions of the world that are required in today’s global economy but are difficult to control at the level of the responsibilities and competences of both national authorities and intergovernmental organizations. For all these reasons, obtaining sufficient evidence in a legal manner may require large resources and it is probably for this reason that many states do not prioritize this kind of investigation and prosecution.

The role of civil society in countering transborder corruption

The combating of transborder corruption cannot not be successful without assistance by the citizens and civil society organizations. The reason why civil society organizations have an interest in countering transborder corruption is that the citizens of the states in which such acts of corruption are committed become victims of relevant crimes and violations of rights and freedoms and inequitable distribution of wealth related to them. Civil society organizations working in different fields of activity are capable of noticing manifestations of transborder corruption that are overlooked by the authorities, who knowingly support some private businesses in improving their competitiveness in a corrupt environment. If this were to happen, the corruption manifestations that have been detected through networking with other civil society organizations and the media could be made widely known through publications in the mass media and the internet, allowing law enforcement agencies to investigate corruption.

Civil society organizations may also conduct their own investigations for the collection of evidence of corruption. They certainly should not be a substitute for the law enforcement authorities – they should refrain from directly accusing these or other officials of corruption until legally sufficient evidence is found. However, in their investigations, civil society organizations could easily use the analysis of the signs of corruption they have detected – not only legally identified ones, but also specific ones. Examples of such signs include violations of morality and ethics in the actions of private businesses and authorities, violations of human rights and freedoms, including, for example, the right to life, to health, to a favorable ecological environment, to adequate material security and others. Citizens have the right to assess the corrupt actions of officials from this point of view. After all, the moral and ethical foundation for the

⁹ The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Organization for economic cooperation and development (OECD). Paris, December 17, 1997. Pravo Ru: <http://docs.pravo.ru/document/view/32615578/34948761>.

interpretation of corruption, such as the use of public authority for private purposes, at or around the end of the 19th century, became one of the most important standards of professional public service.¹⁰ In turn, signs of corruption witnessed by both citizens and authorities, should lead to investigations of suspected corruption within the private sector and authorities, which should be carried out by law enforcement agencies. The significance of detecting the signs of corruption lies in the fact that alongside the stealth used when committing corruption, it is almost always difficult to reveal legally significant evidence of such crimes. Identification of the signs of these crimes allows the law enforcement agencies to focus on the collection of legally significant evidence of corruption by those entities, individuals or legal entities for which the appropriate signs were detected.

Because of the risks of corruption and its consequences for societies and states, it would be desirable if law enforcement authorities and the executive authorities were to check every case where the suspicion of corrupt practices exists. As a result of such interaction on the behalf of the authorities, the law enforcement agencies and executive bodies with civil society organizations, anti-corruption, including transborder anti-corruption, can become more effective.

¹⁰ Barsukova, S. Essays on the informal economy, or 16 shades of gray [text]/ S. Yu. Barsukova; National Research University "Higher School of Economics. — Moscow: Ed. House of the Higher School of Economics, 2015. — C. 39.

Nontransparent and dubious actions during the construction of the Nord Stream gas pipeline

Grigory Pasko
Foundation 19/29 for Investigative Journalism
Russia

Project Background

The construction of the main gas pipeline “Nord Stream” on the bed of the Baltic Sea started in 2005. The project was implemented by a joint Russian-German venture called North European Gas Pipeline Company, which changed its name to Nord Stream AG in 2006. By 2011, Gazprom held a 51 percent stake in the company. The other shareholders were E.ON Ruhrgas, Wintershall Holding AG (15.5 percent each), N.V. Nederlandse Gasunie and GDF Suez (9 percent each). The actual construction of the pipeline had raised numerous objections on the part of Poland and the Baltic states. However, construction work started in 2010, and the pipeline was opened in 2011.¹¹

In spite of numerous objections addressed to the project initiators, the Russian Federation and Gazprom had pushed for this controversial project. Almost as soon as it was completed, riding on the wave of success, Russia announced the start of construction work on the South Stream pipeline.

This project was not as successful as the previous one. Russia and Turkey have not signed the inter-government agreement on the South Corridor, which was supposed to deliver Russian gas first to the South Stream and later to the Turkish Stream pipelines. For this reason, Gazprom had to redistribute the pipes intended for the construction of the South Corridor to be used for the extension of the gas pipelines in the north, which would pump gas into the two new branches (pipelines) of the Nord Stream (Nord Stream 2). However, pipes worth 18 billion rubles (450 million euro) had already been installed.

¹¹ Nord Stream. Archive. Lenta.Ru. <http://lenta.ru/lib/14160423/>

About 380 km of pipes intended for the eastern route of the South Corridor remain unused.¹²

Nevertheless, Gazprom continues to claim that the Nord Stream 2 project will be implemented.

On October 15, 2015, an agreement was signed in Brussels to construct a 534 km-long gas pipeline connecting Lithuania and Poland, which was to be opened by early 2020. The branch starts in central Poland and ends near the village of Jasiunai in South-East Lithuania. The estimated cost of constructing the pipeline is €558 million.¹³

International reaction

A week earlier, in early October 2015, a Lithuanian Euro MP Bronis Ropė stated that the aim of Nord Stream 2 was to increase the energy vulnerability of Ukraine and the dependence of Central and East European countries on Russian gas supplies. The politician emphasized that the project did not “comply with the official EU goal to diversify its sources of energy”, as it did not create a new source or route. “From an environmental perspective, it is doubtful that it is necessary to construct another infrastructure object in the Baltic Sea region, especially if it does not increase the diversification of the source, especially given that EU gas consumption is constantly falling. In 2014 alone, the consumption of gas in Europe decreased by 10 per cent”, the politician said.¹⁴

Thus, the Europeans remembered all their arguments “against” the eight-year period. Actually, the European gas market was monopolized a long time ago, with the launch of Phase 1 of the Nord Stream. Back then, it was clear that the project would cause both environmental issues and the potential discord in the region.

Political and environmental issues are the obvious ones. However, there is another problem that is not so obvious. Gazprom seems to be unable to fill the Nord Stream pipe and is trying to redistribute gas from the first pipeline branch to fill the second one. However, even the first branch, which was put into operation on November 8 2011, is currently using less than half of its capacity. From that moment up until October 1 2015, it had transferred only 8.7 billion cubic meters of gas, while the annual capacity of each branch is 27.5 billion cubic meters.¹⁵ Besides, the amount of exported gas is decreasing

¹² Gazprom Loses billions of rubles on pipes that are to remain buried due to problems with the Turkish Stream [Gazprom poteryal milliardy rublej na trubakh, kotoryje ostanutsya v zemle iz-za problem s Turetskim potokom] (in Russian). Newsru.com. 23.10.2015.

<http://www.newsru.com/finance/23oct2015/gzprmdugpipes.html>

¹³ The European Commission to Fund the First Gas Pipeline Connecting Lithuania, Latvia and Estonia with Other EU Countries (in Russian). Newsru.com. 15.10.2015.

<http://newsru.com/finance/15oct2015/ltpipeline.html?nr>

¹⁴ Nord Stream 2 will weaken Ukraine and Destroy its Status as a Transit Country. Regnum. 7.10.2015.

<http://regnum.ru/news/economy/1986717.html>

¹⁵ Mordyushenko O.V. New Branches to Be Added to Nord Stream. «Коммерсант», 9.10.2015.

<http://www.kommersant.ru/doc/2040126>

each year. Its price has significantly fallen following the price of oil. Gazprom's earnings are constantly shrinking.

Nevertheless, Gazprom announced further plans to launch South Stream, then Turkish Stream, then *The Power of Siberia*, then *The Power of Siberia 2*, etc.

In its early stages, the Nord Stream project was not comprehensively and objectively evaluated against many necessary criteria and it was not reviewed from different perspectives. Early on, during the construction of Phase 1 of the pipeline, the project revealed a number of serious issues in at least two aspects: the economic and the environmental aspects.

The economic aspect

The stated value of the whole project (€7.4 billion) was significantly lowballed by the companies that made up the Nord Stream AG Consortium (the Nord Stream stakeholders are Gazprom, E.ON, Ruhrgas, Wintershall Holding, Gasunie and GDF). The representatives and lobbyists of this consortium had pressed for a positive decision from the European Directorate-General for Energy, failing to include the cost of a 917 km-long stretch of the pipeline between Gryazovets and Vyvorg worth €5 billion. They had also failed to take into account the potential economic implications of environmental damage. Gazprom managers had not taken into account the costs of dismantling the pipes after the end of the operation period (in 50 years). They had calculated neither the economic damages for Russia if gas were exported to Europe rather than consumed locally, nor Russia's losses incurred due to the low price of exported gas. They had not calculated the cost of exercising backstairs influence on individuals and groups to win their favourable attitude to the project (see the examples with the communities on the Swedish island of Gotland in the chapter Conclusions and Recommendations)¹⁶.

The environmental aspect

The Nord Stream AG claimed¹⁷ that it had spent €100 million on environmental expert evaluation procedures. The company did not provide any details of this expenditure, which may mean that this amount was considerably overstated. In spite of this, the shareholders' agreement on constructing the third and fourth branches of Nord Stream 2 was signed in September 2015 at the Eastern Economic Forum in Vladivostok. The new consortium included Gazprom, E.ON, Shell, BASF/Wintershall, OMV and ENGIE. Gazprom holds 51 per cent of the stock, ENGIE owns 9 per cent, while the others have 10 per cent each. It was planned that the two new lines with an aggregated annual capacity of 55 billion cubic meters would go from the Russian coast under the Baltic Sea directly to Germany.

¹⁶ Pasko G. "How Much it Costs to Think". Live Journal, 7.4.2009.
<http://bordo07.livejournal.com/42482.html>

¹⁷ Nord Stream has published an Environmental Report. Vzglyad, 9.3.2009.
<http://vz.ru/news/2009/3/9/263312.html>

This meant that the same problems would arise again: new lobbyists, new instances of transborder corruption and new environmental issues.

Lobbying or corruption?

It was planned from the very start that the North European Gas Pipeline Company was to be headed by the former German Chancellor Gerhard Schroeder. In 2005-2006, he had become a close friend of Vladimir Putin. German mass media reported the amount of Schroeder's salary, which they believed to be between €200,000 and €1 million. The German newspaper *Euro am Sonntag* gave the boldest estimation, alleging that Gazprom had promised to pay Schroeder €1.5 million a year.¹⁸ Schroeder himself always displayed indignation at this information but he never opposed it with an actual figure. Schroeder's opponents resented the fact that he had started lobbying for the gas pipeline project while still in office. After stepping down as Chancellor of Germany, he simply transformed his loyalty to Putin's pet project into money.

The leader of the German Green Party Reinhard Buetikofer referred to this situation as 'nepotism' that was like an 'old boys' network'.¹⁹ The leader of the Free Democrats Guido Westerwelle found malpractice in Schroeder's behavior, saying that a situation where a member of the government can ensure his personal income through his political actions is unacceptable.²⁰

All the Kremlin's Men by Mikhail Zygar (published in 2015) contains an episode entitled "Putin used Gerhard Schroeder as an expensive souvenir":

"...Mikhail Saakashvili, the then President of Georgia, recalls that Vladimir Putin liked to show Schroeder to his guests as an expensive souvenir. "Once, during a CIS summit, Putin was showing his guests around the Konstantin Palace. He took them to the wine cellar. And there – as if by accident – was Gerhard Schroeder. Putin asked him to make a toast. To my great surprise, the next year he did absolutely the same thing, this time trying to impress the guests of the Saint Petersburg Economic Forum".²¹

The Managing Director of the North European Gas Pipeline was Matias Warnig, Head of the Russian Office of the Dresdner Bank. It was noted that it was his company that bought the blocking stake of Gazprombank, the main bank of Gazprom, through which it transfers over half of its cash flow. Besides, Warnig is known to have worked for the GDR State Security Service (the "Stasi") and to have been friendly with Putin.²²

¹⁸ Quoted after Amzin A. Schroeder Employed by Gazprom. Lenta.ru, 13.12.2005.
<http://lenta.ru/articles/2005/12/13/million>.

¹⁹ Ibid.

²⁰ Ibid.

²¹ "The situation in the world is difficult, Dima. We could lose the country". What we learned from "All the Kremlin's Men" by Mikhail Zygar. Meduza, 22.10.2015.
<https://meduza.io/feature/2015/10/22/situatsiya-v-mire-slozhnaya-dima-mozhno-i-stranu-poteryat>.

²² Amzin A. Schroeder Employed by Gazprom. Lenta.ru, 13.12.2005.
<http://lenta.ru/articles/2005/12/13/million/>

Interestingly, the Russian authorities had intended to legislate against the opportunity for foreigners to be appointed top managers of Russian state-owned mineral companies, but this law was never passed.²³

Following Schroeder, another European official became involved with Gazprom – the former Swedish Prime Minister and Minister of Foreign Affairs Karl Bildt. Swedish mass media and opposition accused him of having private interests in Russia's energy projects and thus of a bias in his relations with Moscow.²⁴

According to *Kommersant*, the *Vostok Nafta Investment Fund* was founded on October 25, 1996 by the Swedish investor Adolf Lundin and was registered in Bermuda. As of September 29, 2006, its assets amounted to \$2.65 billion. Its net profit for the first half of 2006 was \$896 million. The Fund's portfolio chiefly consists of the shares of Russian mineral companies (Gazprom – 90.83%, *Rosneft* – 3.31%, TNK-BP – 2.21%). The company holds a 1% stake in Gazprom. Its Chairman is Lukas Lundin, the son of Adolf Lundin, who died in September 2006. The Lundin family controls 30% of the stake, while the rest of it is divided between Swedish private investors.²⁵

“It is highly unreasonable that the Swedish Minister of Foreign Affairs should have an interest in a company which is an instrument of Russian state policy”, says Professor Christian Gerner, expert on Russia, in his article in *Svenska Dagbladet*.²⁶

In 2001 Bildt became member of the *Vostok Nafta* board, where he made a very profitable deal: he took part in two stock option plans, which entitled him to buy shares for a set price during a certain period. In January 2014, in the middle of the Russian-Ukrainian gas scandal, Karl Bildt used his right and bought 2000 shares in *Vostok Nafta*. On the following day, the price of those shares soared by 22% and has continued to grow.²⁷

Bildt could not have been indifferent to the outcome of his business, which means he cannot have been impartial to the success of Russian state mineral companies. His critics used this presumption to account for the mild (in their view) policy of the Swedish Ministry of Foreign Affairs towards Moscow.

It was during the conflict between Russia and Georgia in August 2008 that Nord Stream got a new influential European lobbyist: the former Finnish Prime Minister Paavo Lipponen. Lipponen accepted the position of an independent consultant at Nord Stream AG. According to journalist Nikolai Meinert, Finland became politically dependent through its economic dependence:

²³ Ibid.

²⁴ Swedish Minister of Foreign Affairs Found to Be Connected with Gazprom. ЛІГАБізнесІнформ, 25.10.2006. <http://news.liga.net/foreign/world/308846-glava-mid-shvetsii-ulichen-v-svyazyakh-s-gazpromom.htm>

²⁵ Prolofiev S. Post-Election Investment Campaign. *Kommersant*, 24.10.2006. <http://www.kommersant.ru/doc/715768>

²⁶ Ibid.

²⁷ Ibid.

“Helsinki is prepared to compromise on many issues if its interests are treated with understanding. Finland does not want to argue with its neighbor, but it is not always willing to just follow in the wake of Russia’s policy”.²⁸

This is an extract from a recent interview with Boris Reitschuster, a German journalist:

“Interviewer: Are there many lobbyists of Russian interests in Germany?”

Boris Reitschuster: Yes, very. Most of them are former politicians. A friend of mine told me that he flew in the same plane with certain former high-ranking politicians who had been at the meeting, which they call “the Dialogue”, “the Potsdam Meetings” – those were the pro-Kremlin people on both sides. He said that they looked visibly uncomfortable, as if they were selling their souls...”²⁹

The environmental aspect

Russia’s Prime Minister Vladimir Putin said at an environmental summit in Helsinki that he was convinced that the Nord Stream pipeline was environmentally friendly and safe. He also mentioned that Russia would run a sanitation program for the Baltic Sea. As well as this, Putin emphasized the fact that Russia was actively reconstructing and developing the water supply and sewerage system in the Baltic Sea region, which would help to achieve 98 percent wastewater treatment in St. Petersburg and its suburban districts by 2015.³⁰

At the same time, the Finnish authorities continued to fund the wastewater treatment in St. Petersburg. The Finnish Ministry of the Environment allocated €4.57 million to improve the wastewater treatment system in the city. “The money will be spent on the purchase and installation of equipment for the pump unit of the sewage collector. The equipment will be supplied by KSB Finland Oy.”³¹

It should be noted that initially many environmentalists opposed the construction of the Nord Stream pipeline. For instance, the town council and university of the town of Visby, local marine archeologists, as well as the town council of the town of Slite on the Swedish island of Gotland.³²

Later they all changed their mind. The Finnish environmentalists told the author of this paper that they had chosen the better of two evils.

²⁸ Nord Stream Enlists an Influential European Lobbyist Paavo Lipponen. Newsru.com. 19.8.2008. http://rus.newsru.ua/finance/19aug2008/nord_stream.html

²⁹ Rykovtseva E. 12 Russian Opposition Activists and One German. Radio Liberty, 19.10.2015. <http://www.svoboda.org/content/transcript/27314293.html>

³⁰ Vladimir Putin in Helsinki to Try to Convince Baltic State Leaders that Nord Stream is Environmentally Friendly. Echo Moscow, 10.2.2010 г. <http://echo.msk.ru/news/655506-echo.html>

³¹ News. Press Review. Polpred.com. 2010. <http://polpred.com/?cnt=168&ns=1§or=13&page=5>

³² Pasko G. They have Nord Stream. And We? Livejournal, 29.3.2009. <http://bordo07.livejournal.com/36592.html>

Alexei Yablokov, a well-known Russian scholar and environmentalist, made the following comment on the situation: "They promise that it will be clean. But Nord Stream AG has already told some profound lies to the public. They said that they had performed an expert evaluation procedure, but they had not. They said they had examined the seabed, which they hadn't done. Now they are saying that they ... have examined the seabed three kilometers left and right of the pipe, found two or three mines, but there are no chemical shells. We have to take their word for that, as we cannot verify this information. So, let us take their word and try to model what they say. In any case, this will upset the ecological balance of the Baltic sea..."³³

Only Poland, Lithuania, Latvia and Estonia retained their original critical position.

"Taking into account the fact that the International Maritime Organization recognized the Baltic Sea as a sensitive maritime zone, in our opinion, it would be best if the gas pipe didn't go under the sea but by land instead", Estonian Foreign Minister Urmas Paet stressed.³⁴

Even before that, the Estonian Green Party expressed a similar point of view. In their statement, they emphasized that if European companies wanted to increase the use and supply of Russian natural gas, they should install additional pipes to the existing gas corridors, which would help avoid damaging the environment through the construction of new gas pipelines either over land or under the Baltic Sea.³⁵

According to Ludmila Bogdan, an expert on international environmental cooperation, "Russia did not provide comprehensive information on the project, particularly on the Environment Impact Assessment Procedure (EIAP) of the whole project (its land and maritime parts, including the 122 km in Russian territorial waters). Public access to this information was hindered. The land part of the project was run by a separate company and was seen as a separate project unconnected with the marine part. The public outreach process regarding the Environment Impact Assessment Procedure for the onshore part of the North European Gas Pipeline was rather formal. There was no adequate information on the marine part in the Russian territorial waters up to the feasibility evaluation stage."³⁶

Scheduled loss or corruption?

From the very start, the Nord Stream was mentioned in association with the Espoo Convention. Developed by the United Nations Economic Commission for Europe, this Convention on environmental impact assessment in a transborder context is the chief international legal act in the sphere of transborder environmental assessment.

³³ Kara-Murza V. The Baltic Region Has Gas. Radio Liberty, 10.2.10. <http://www.svoboda.org/content/article/1954347.html>.

³⁴ Raguzina G. Nord Stream Gives Access to the Russian Public. Estonia Denies Access to Nord Stream. Bellona, 2007. http://www.bellona.ru/articles_ru/articles_2007/Nord_Stream_ru_ee

³⁵ Ibid.

³⁶ Bogdan L. The Nord Stream project. EIAP and Public Involvement. Russian Regional Environmental Center. Moscow, 2007. <http://www.myshared.ru/slide/354502/>

The Nord Stream gas pipeline project is No.8 in the list of Espoo Convention activities that may have a harmful transborder impact, (oil and gas pipelines with large diameter pipes) (Appendix 1 to the Espoo Convention).

In accordance with the Espoo Convention, the parties concerned must participate in environmental impact assessment procedures. In the case of the Nord Stream, the concerned parties were all countries in the Baltic region: the countries of origin (Finland, Sweden, Denmark and Germany, whose exclusive economic zones and territorial waters were to be crossed by the pipeline), and the affected countries (Poland, Lithuania, Latvia and Estonia). Interestingly, Russia, which did not sign the Convention, was not party to it.

The countries of origin initially agreed that they would prepare a consolidated report on environmental impact assessment for the whole length of the gas pipeline. This report took into account all comments received, and the project developer even promised to address them all.

Moreover, it is still unclear how that report came to be approved by the affected countries – Poland, Lithuania, Latvia and Estonia. Or did they approve it at all? Those countries are known to have questioned the whole project, not only its environmental aspect. Thus, if they had had an opportunity to influence the final wording of the report, their conclusion would have been different.

This is a typical stance. In the comments to the project submitted by Lithuania, it is stated that it is necessary to consider alternative routes for the pipeline: the most profitable one for the ordering party and the most environmentally friendly one; or to renounce the plan to install the pipeline under the sea. As Secretary of the Ministry for the Environment of Lithuania Alexandras Spruogis put it, the overland pipeline would be much less expensive and a lot safer for the region's environment.³⁷

Experts of the Swedish Environment Protection Agency were of the same opinion. In their view, the project designer had to consider such alternatives as a fully overland route or one bypassing the maritime conservation zones. Besides, in Sweden it was believed that the potential impact on the environment had not been studied well enough – that the risks of water contamination and WWII mines exploding had not been taken into account.³⁸

The press quoted the following statement made by Dirk von Ameln, Deputy Technical Director of Nord Stream AG, in charge of obtaining permissions: “Nord Stream has spent over €100 million on environmental studies and planning in order to ensure the safety and environmental sustainability of the technical design and the route of the gas pipeline.”³⁹

³⁷ Lithuania Asks to Change the Route of the Nord Stream Pipeline. Goport.ru, 21.2.2007
<http://www.goport.ru/news/1499/>

³⁸ Raguzina G. Nord Stream Project Dangerous for the Baltic Ecosystem. Bellona.ru, 28.5.2007.
http://www.bellona.ru/articles_ru/articles_2007/Nord_Stream_syn

³⁹ Nord Stream has published an Environmental Report. Vzglyad, 9.3.2009
<http://vz.ru/news/2009/3/9/263312.html>

Mr von Ameln mentioned that his company was holding “intensive talks with the responsible state authorities of the Baltic Region”, that their company would “address all areas of concern”, and that their project would be beneficial for practically all humankind.⁴⁰

Should there be damage to the environment, which the company estimates at 71.5 million rubles for the seabed part, or to the interests of third parties, it will “be compensated by the company according to the Russian legislation”, Mr von Ameln stressed. Unfortunately, it remained unclear how such compensations will be paid in the case of environmental damage.⁴¹

When Russian environmentalists estimated the potential damage, the amount was always several times greater than 71.5 million rubles. At the exchange rate of 2009, this amount equaled €1.6 million. This is to be compared with the €140 million spent on unknown purposes.

Incidentally, the Russian public did not seem to worry much about the environmental factor. The shortage or even absence of information in Russia is demonstrated by the fact that out of 129 comments submitted to the Nord Stream project developer in 2007, Finland put forward 50, Germany and Sweden 29 each, and Estonia, with a population of 500,000, made 12 comments, while Russia proposed just one.⁴²

The social aspect and human rights

For many years, Russian television viewers frequently saw a Gazprom commercial with the slogan “Our National Endowment”. But is it truly national?

Here is an example. The stretch of the pipeline between Gryazovets and Vyborg, which was not included in the project cost estimation, goes through the town of Babayevo of the Vologda Region. Three main pipelines cross this town, including the Nord Stream. However, only 40% of the town has gas infrastructure. The others heat their ovens with wood from the nearby forests. Only liquidized gas is available – at a sky-high price. This is because someone has decided that Russian gas is not for Russians: for Germans, the Dutch, the French – yes: for anyone except the Russians.⁴³

According to expert data, “Gazprom has a share in practically every product. For instance, 50-70 percent of the cost structure of electric power provided by a heat power plant is the price of gas. But is there an industry that can do without electric power? And if you pay an enormous sum for the heating of your apartment, you should know that part of this money goes to Gazprom...”⁴⁴

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Zernova L. Nord Stream diffuses Issues. Bellona.ru, 19.2.2009
http://www.bellona.ru/articles_ru/articles_2009/Nord_Stream

⁴³ Pasko G. Takeaway Pipe. Livejournal, 9.4.2009. <http://bordo07.livejournal.com/tag/nord%20stream>

⁴⁴ Andruskiy E. Why is Gazprom selling our gas? MaxPark, 25.4.2014.
<http://maxpark.com/community/88/content/2691911>.

There has been much coverage of the fact that Gazprom regularly overprices gas in the domestic market. It is also known that Russia does not have a fully developed market in the sphere of gas utility for homes, the social sphere and the industry. This means that there should be no free market pricing, but a state-regulated tariff instead.

It is worth adding that Gazprom's non-core assets include not only the Gazprom Media Holding, but also the Zenit and Schalke-04 football teams (which cost about €200 million annually).⁴⁵

Also, Gazprom owns other sport assets. In the early 2000s, the company sponsored the Minardi team in Formula 1. In July 2012, Gazprom signed a deal with the Union of European Football Associations to become the official partner of the Champions League in 2012-2015, and the sponsor of UEFA Supercup in 2012-2015. In the same month, Gazprom signed a three-year sponsor contract with Chelsea Football Club.⁴⁶

Why does Gazprom need all that? "In Europe the image of Gazprom is that of a monster from the Cold War times, and we want to break that stereotype", confessed a member of its press service.⁴⁷

The social aspect of Gazprom's activity is revealed in the following numbers: the level of gas infrastructure development in Russian rural settlements is 53.1%. In 2013, according to the Russian Statistics Energy, only 68 percent of homes were provided with gas: 65 percent in urban areas and 73 percent in rural areas. For comparison: Ukraine extracts 30 times less gas than Russia; however, according to the Ukrainian State Statistics Committee, in 2013 80 percent of homes were provided with gas utility.⁴⁸

However, instead of purposefully developing the gas supply infrastructure in Russia, the company management prefers to develop its non-core assets. Gazprom holds large stakes in companies developing and applying new medical methods and technologies (*OOO Ekomed*); companies producing heavy truck cranes (*OAO Gazprom-kran*), timber and millwork (*OOO Foragazprom*), dishes and souvenirs (*ZAO Saraktashsky Fayans*), footwear (*OAO Tek*s), bottled mineral water (*OOO Minvodygazprom*), aluminum constructions (*OOO Agrisovgaz*), fur clothes (*ZAO Severyanka*); companies dealing in catering (*OOO Bashtransgaztorg*), logging and sawing (*OOO Severgazles*), building materials (*OOO Construction Concrete Plant*); a company extracting and processing manganese ore (*OOO Polunochnoye Rudoupravleniye*). In total, Gazprom and its branches own several thousand non-core stakes at different companies".⁴⁹

⁴⁵ How Much does Gazprom Spend on PR and why does it Need FC Zenit? Argumenty i Fakty, 16.11.2012. <http://www.aif.ru/dontknows/1231272>

⁴⁶ The Nord Stream. Lenta.ru. Archive. <http://lenta.ru/lib/14160013/full/>

⁴⁷ Sagdiyev R., Tutushkin A., Koryukin K. Buisnessmen Are into Foreign Sports. Vedomosti, 29.3.2007. <http://www.vedomosti.ru/newspaper/articles/2007/03/29/biznesmeny-zanyalis-inostrannym-sportom>

⁴⁸ Bashkatova A. Instead of the Turkish Stream, they Speak of Russian Gas Infrastructure. Nezavisimaya Gazeta, 16.6.2015. http://www.ng.ru/economics/2015-06-16/4_stream.html

⁴⁹ Sukhanov N. A Difficult Heritage// Gazprom's Non-Core Assets. Obschestvennyi Obozrevatel, 17.7.2004. <http://abos.ru/?p=51768>

Economy of sorts

There have been a lot of press publications devoted to the cost of the Nord Stream pipeline.⁵⁰ The general conclusion is that nobody knows its exact cost. That is, Western companies have their own cost estimations and expenditure reports, but the costs incurred by the Russian party are the most nontransparent part of the project budget. Surprisingly, no one in Russia seems to be interested in those amounts: neither the law enforcement agencies, nor Parliamentary commissions, nor investigative journalists, nor the public...⁵¹

For a long time Gazprom did not mention the exact amount of its expenses for the Nord Stream pipeline. All they disclosed was its estimated cost which amounted to “over €6 billion”, which they declared in their reports.

Later Gazprom changed its estimation. The Nord Stream pipeline was to cost approximately \$7.4 billion. This was the amount Gazprom declared in a memorandum regarding the prospective issue of Eurobonds for \$2 billion.⁵²

According to Mikhail Korchemkin, General Director and owner of East European Gas Analysis (USA), “Russian project developers, including Gazprom project design teams, give realistic expense figures, but the top management of the gas monopolist triple or even quadruple those figures. This is well illustrated by comparing the amounts spent on two gas pipelines with similar technical specifications”.⁵³

This is followed by a cost calculation: “In November 2005, Gazprom published information that it would allocate 19.8 billion rubles to bring into service a 144 km-long stretch of the North European gas pipeline Gryazovets – Vyborg. The press release contains information about the cost of just the first branch of the pipeline without the cost of compressor units (the construction of the second branch started in 2010). This means that one kilometer of the linear portion of the gas pipeline cost 138 million rubles (approximately €4 million at the exchange rate of 2006)”.⁵⁴

In the spring of 2006, Gazprom published the main technical specifications of the Altai gas pipeline. The company’s web site reported that the pipeline was to be 2,800 kilometers long and that it would cost between \$4.5 billion and \$5 billion, including the cost of gas compressor stations (this web page was later changed, but it is easy to find the original estimation in the Internet). Thus, the total cost of one kilometer of the pipeline from West Siberia to China was estimated at 44-49 million rubles (€1.3-1.4 million).⁵⁵

⁵⁰ Pasko G. Is it impossible to unmake the pies? Livejournal, 29.5.2009.

<http://bordo07.livejournal.com/62893.html>.

⁵¹ Ibid.

⁵² Nord Stream Enlights an Influential European Lobbyist Paavo Lipponen. Newsru.com. 19.8.2008.

http://rus.newsru.ua/finance/19aug2008/nord_stream.html

⁵³ Korchemkin M. How Gazprom Overprices Gas Pipelines. Forbes, 25.11.2010.

<http://www.forbes.ru/svoi-biznes-column/biznes-i-vlast/60215-kak-gazprom-velichivaet-stoimost-svoih-proektov-v-neskolko->

⁵⁴ Ibid.

⁵⁵ Ibid.

It appears that, taking into account the cost of gas compressor stations, one kilometer of Gryazovets – Vyborg pipeline cost four times as much as one kilometer of the Altai pipeline. In 2009, the cost of one kilometer of a similar gas pipeline OPAL in Germany amounted to €2.1 million (94 million rubles), including the cost of gas compressor stations, which is almost half the cost of the linear part of the North European Gas Pipeline.

There is a more recent example. In March 2008, before the crisis and with the prices of materials and services at their highest, OOO Peter Gas Engineering estimated the volume of investment in the gas pipeline Dzhubga – Lazarevskoye – Sochi at 8-10 billion rubles. In September 2009, at the height of crisis, when the prices of steel pipes and other materials had gone down, the chairman of Gazprom Alexei Miller estimated the construction of the gas pipeline at 25 billion rubles.

Apparently, having received the cost estimation from project design organizations, Gazprom management tops it with a margin for intermediaries and contractors, which increases the total project cost three- or four-fold.

Let us compare this calculation with another piece of data: the estimated cost of the installation of the pipeline connecting Lithuania with Poland (534 km) amounts to €558 million.⁵⁶ To understand the arithmetic of the overrated costs of Gazprom's projects, the following facts may be useful.

Businessman Arkady Rotenberg is the owner of *Stroigazmontazh*, and his brother Boris Rotenberg owns the North European Pipe Project (NEPP), whose chief client is Gazprom. NEPP has been supplying steel pipes to Gazprom since 2005. In 2008, *Stroigazmontazh* bought five contractor branches of Gazprom installing the onshore parts of the Nord Stream pipeline, the "Olympic" gas pipeline Dzhubga – Lazarevskoye – Sochi, and others.

This is what the investigators of the "Novaya Gazeta" newspaper wrote about the deal:

"The Rotenberg brothers are in favour at the Kremlin, so they will have contracts both for pipes and construction, as concern representatives have told the *Vedomosti* on several occasions. Back in the 1960s, both brothers went to the same judo club as Putin. Their friendship continues up to the present. Arkady Rotenberg is the General Director of the Yavara-Neva judo club whose Honorable President is Putin".⁵⁷

More facts. "*Stroigazmontazh* won the Nord Stream contract. The cost of the construction was three times as high as that of similar gas pipelines in Europe, although our workers' wages are a lot lower than those of their European colleagues.

⁵⁶ The European Commission to Fund the First Gas Pipeline Connecting Lithuania, Latvia and Estonia with Other EU Countries (in Russian). Newsru.com. 15.10.2015.
<http://newsru.com/finance/15oct2015/ltplpipeline.html?nr>

⁵⁷ Шлейнов Р. Дзюдо: своих не бросают. «Новая газета», 28.6.2009
<http://www.novayagazeta.ru/inquests/44531.html>

The Rotenberg brothers did not have to participate in tender selections to be awarded the contract for the construction of the Sakhalin – Khabarovsk – Vladivostok gas pipeline. The cost of construction is extremely high: 210 billion rubles. The contract for the construction of the Olympic gas pipeline Dzhubga – Lazarevskoye worth 22 billion rubles was also awarded to them avoiding the usual call for tenders”.⁵⁸

Until now, the exact amount of money spent on the Nord Stream has not been made public. According to different calculations performed by independent experts, it amounts to 17-20 billion euros.⁵⁹ Naturally, this does not include the corruption component: bribes, cuts and lobbying.

In 2009 the Russian press wrote, “The Russian German concern Nord Stream is suspected of corruption. Sweden has initiated a public prosecution investigation into a bribe acceptance episode in connection with the prospective construction of a Russian-German gas pipeline under the Baltic Sea. In January 2007, the management and ornithologists of Gotland Institute (Sweden) warned about the danger of pipeline construction next to a sensitive bird nesting area in the Baltic Sea area. In the summer of the same year Nord Stream AG allocated 5 million kronas to fund special research works to study a rare duck species. The concern’s management knew that this institution was to give its expert evaluation on the advisability of the proposed route of the Nord Stream pipeline”.⁶⁰

Conclusions and Recommendations

The Nord Stream gas pipeline under the Baltic Sea (opened in 2012) is not only the longest but also one of the most controversial energy projects of the past decade. Due to its lack of transparency it has caused dissent among the countries of the Baltic region. Independent experts believe that Russia – the initiator and an active participant of the construction – has misled European specialists as to the actual cost of the project, as well as the environmental damage to the Baltic Sea.

Given the persistence displayed by Gazprom and Russia in promoting Phase 2 of the Nord Stream pipeline, this may give rise to further incidences of transborder corruption, breaches of environmental laws and nontransparent decisions.

At the early stages of the construction of the North-European Gas Pipeline, many experts and specialists opposed this project. However, six months or one year later, some of them changed their mind, like the Swedish MPs⁶¹ or the community of Gotland Island. Later it was disclosed that their points of view changed after they had been visited by Gazprom and Nord Stream lobbyists. For instance, the author of this article was

⁵⁸ Putin. Corruption. [Putin. Korruptsia]. The National Internet, 2013.

http://ekvador2011.blogspot.co.il/2012/08/blog-post_7.html

⁵⁹ Pasko G. Is it Impossible to Unmake the Pies? Livejournal, 29.5.2009.

<http://bordo07.livejournal.com/62893.html>

⁶⁰ The Nord Stream Concern is Suspected of Corruption. Buisness-Georgia, 19.2.2009.

<http://bizzone.info/2009/egy/1235108062.php>

⁶¹ Portyakova N. Sweden Agrees to Nord Stream. Vedomosti, 5.11.2009.

<http://www.vedomosti.ru/politics/articles/2009/11/05/shveciya-soglasilas-na-nord-stream>

unofficially told in the sidelines of the Swedish Riksdag that Putin's representatives had unambiguously said that if Sweden blocked the Nord Stream, Swedish companies would have problems in Russia.

On the Swedish island of Gotland, for no apparent reason, Nord Stream AG financed the works performed by amateur underwater archaeologists, a children's song festival, the Visby University, and they promised to deepen the seabed at the port of Slite, after which the local community changed its mind.

Phase 2 of the Nord Stream pipeline is very likely to give rise to new issues associated with the environment, corruption or lobbying.

In this situation, the politicians and communities of the Baltic region affected by the pipeline along with public and environmental organizations can take the following actions:

- demand that Gazprom provides maximum transparency and openness in its relations with the local communities, environmental organizations and the press, including their free access to territories intended for the installation of new inland parts of the pipeline;
- draw up and circulate an open letter to the European Directorate-General for Energy listing the negative social and environmental impacts of Phase 2 of the Nord Stream pipeline.
- initiate environmental inspection of pipeline facilities (both onshore and underwater);
- hold truly open public hearings on the environmental impact of the project in accordance with the Espoo Convention and Russian environmental legislation;
- draw up a program of environmental and social protection measures for communities along the route of the pipeline (the Vologda and the Leningrad Regions);
- journalists and environmentalists should track the participation of Gazprom in nontransparent and corrupt projects.

Not only Gazprom, but all major Russian state-owned monopolist companies must be forced to take an interest in maximum transparency of their activities and the implementation of construction projects. Their operations should be controlled not only by governmental fiscal institutions, but also by the public. A lack of transparency always provides the ideal soil for the weeds of corruption, including transborder corruption, as most projects run by companies such as Gazprom are international.

Transmashholding: from Russia with corruption

Konstantin Rubakhin,
Leader of the Movement “Save Khopyor”, blogger
Russia

Subject of investigation

ZAO (Closed Joint-stock Company) “Transmashholding” (TMH) is the largest Russian company in the field of transport engineering. TMH enterprises produce main and industrial locomotives, mainline and shunting diesel locomotives, freight and passenger railroad cars, trains and subway cars, railcar castings, diesel locomotive and marine diesel engines, diesel generators, spare parts for railway rolling stock and urban rail transport, as well as carrying out repair and maintenance work for previously released products.⁶²

Some of Transmashholding products are used for military purposes. On November 9, 2015 the submarine “Krasnodar” was launched at the Admiralty shipyards in Saint Petersburg, its engines produced by the Kolomensky plant, which is part of TMH.⁶³

ZAO “Transmashholding” was established in 2002 on the basis of enterprises controlled by Iskander Makhmudov and Dmitry Komissarov. According to some sources, in 2004 Makhmudov and businessman Andrei Bokarev began to merge disparate engineering plants in “Transmashholding”.⁶⁴

In November 2007, TMH reorganized the structure of ownership, reselling their shares to the Dutch company “The Breakers Investments B.V.”, controlled by Iskander Makhmudov and Andrei Bokarev. On December 26 2007, 25% shares of The Breakers Investments B.V. were purchased by the open joint-stock company OAO “Russian Railways”.⁶⁵

⁶² Transmashholding, the official website: www.tmholding.ru

⁶³ The new submarine with the main powerplant produced at Kolomensky plant joined the Russian Navy. IPS “Metal supply and sales”, 09.11.2015 <http://www.metalinfo.ru/ru/news/82227>

⁶⁴ Виньков А. На кого наедет русский экспресс. Raexpert, 20.06.2006
<http://www.raexpert.ru/ratings/expert400/2006/transmash/>

⁶⁵ Transmashholding, the official website: www.tmholding.ru

At the end of March 2009 an option to buy 25% +1 shares of The Breakers Investments B.V. (from Mahmudov's and Bokarev's package) was concluded by the French engineering company Alstom. On March 1 2010, a contract for the purchase and sale of these shares was signed with Alstom.

Currently, preparations are being made to sell 25% +1 shares of Transmashholding, owned by the Russian Railways through The Breakers Investments B.V. By September 2015, documents for the sale of the package were submitted to the Government, its value estimated at 13 billion rubles.⁶⁶ It was reported earlier that Alstom would buy the package, bringing its stake to 50 percent.⁶⁷ The deal was planned for 2015, but will probably take place next year.

Transmashholding is often criticized by competitors and civil organizations because of lobbyism, monopoly and corruption. The main argument given by critics is the relationship of TMH majority shareholders Iskander Makhmudov and Andrei Bokarev with ex-head of the OAO "Russian Railways", Vladimir Yakunin. Moreover, former co-owner and partner of Mahmudov and Bokarev, Maksim Liksutov headed the Department of Transport for the city of Moscow, which will be explained further in this article.

Competitions for the supply of rolling stock to the Moscow subway

In 2014, the Moscow Department of Transport held two competitions for the supply and servicing of Moscow subway cars to the total amount of about 277 billion rubles. "Transmashholding" won both of them.

In February 2014, the results of the first contest for the supply of 832 cars for the Moscow metro during 2014-2017 and their service during the entire period of operation were made public.⁶⁸ The competition was won by enterprises belonging to ZAO "Transmashholding": Consortium of AO "Metrovagonmash" and AO "Transholdlizing". Contract amount: 143.955 billion rubles. (At the exchange rate at that time, 2.925 billion euro.)

It is worth noting that other structures of the same ZAO "Transmashholding" – AO "Oktyabrsky electric car repair plant", OAO "Tver wagon works" and ZAO "FLC-Transmashlizing" – were competing against the winning enterprises.

In December 2014, at the second contest, the managers of the Moscow metro contracted the delivery of 768 new-generation cars with the Russian company ZAO «Transholdlizing»-structure of ZAO "Transmashholding" for 133 billion rubles (2.710

⁶⁶ The blocking stake of RR in TMH was estimated at 13 billion rubles. Interfax, 02.09.2015: www.interfax.ru/business/464148.

⁶⁷ Alstom will explore the possibility of buying out 25% of TMH shares stake from RR. RIA "Novosti", 12.12.2014: www.ria.ru/economy/20141212/1037977436.html.

⁶⁸ Section of the competition on the website of public procurement: <http://zakupki.gov.ru/223/purchase/public/purchase/info/common-info.html?lotId=1349644&purchaseId=808398&purchaseMethodType=IS&epz=are=true>.

billion euro).⁶⁹ In August 2015, a supplementary agreement was signed, providing for indexation of the cost of services in the context of the fall of the ruble.⁷⁰

The structure of ZAO "Transmashholding"

TMH can be affiliated with the tendering agency – the Moscow Department of Transport.

The ownership structure of The Breakers Investment B.V.⁷¹ for 2012:

- 25% – Russian Railways (Russia)
- 25% – Alstom Holdings⁷² (France)
- 13.26% – Ammonis Trading Limited⁷³ (Cyprus)
- 13.26% – Latorio Holdings Limited ⁷⁴(Cyprus)
- 13.26% – Mafrido Trading Limited (Cyprus)
- 3.75% – Silasio Trading Limited (Cyprus)
- 6.47% – Teromo Investments Limited (Cyprus)

The head of the Moscow Department of Transport, Maxim Liksutov, Deputy Mayor on transport issues in 2012, previously owned part of ZAO “Transmashholding”. In May 2012, taking up public office, he claimed to be selling his stake in Transmashholding to other shareholders – Iskander Mahmudov and Andrei Bokarev.⁷⁵

However, analysts do not think that Liksutov distanced himself from Transmashholding. According to investigations by the head of the Fund for Fighting Corruption, Alexei Navalny⁷⁶, assets owned by Maxim Liksutov are currently managed through Cyprus offshores by the General Director of LLC «Aeroexpress», Aleksey Krivoruchko, a person close to Liksutov.

Liksutov himself can own shares of ZAO “Transmashholding” at 12.11% through the Swiss company Corecam AG for the management of family assets.⁷⁷ In addition, the final owners of a number of Cyprus offshores holding the Dutch company The Breakers Investments B.V. (100% owner of Transmashholding) are located in the British Virgin Islands. Due to the BVI offshore data base leak in April 2013, one can establish that at

⁶⁹ Another mega contract for Moscow metro went to “Transmashholding”. AEI "Prime", 25.12.2014: http://lprime.ru/industry_and_energy/20141225/798880015.html.

⁷⁰ Additional agreement to the contract on the website for public procurement <http://zakupki.gov.ru/223/purchase/public/download/download.html?id=16240660>.

⁷¹ The Breakers Investments B.V. annual report 2011 (downloaded from Netherlands Chamber of Commerce register) <https://drive.google.com/file/d/0B81CwE1TpzJQLUFSQkxnb0g2VDg/edit>

⁷² Alstom, the official website: <http://www.alstom.com/russia/ru>

⁷³ <http://i.imgur.com/nvFzT7c.png>

⁷⁴ <http://i.imgur.com/h5AO8Em.png>

⁷⁵ B. Iyauv, Rozhkova M. Maxim Liksutov can refuse to participate in all of his businesses. “Vedomosti”, <http://www.vedomosti.ru/business/articles/2012/05/17/transportnik bez transporta 31.01.2009>

⁷⁶ Eliseev S. Liksutov's "Beaver collar": Navalny told of "corruption offshores" of Deputy Mayor of Moscow. Slon.ru, 16.01.2014 <http://slon.ru/fast/russia/bobrovyy-liksutova-navalnyy-vorotnik-rasskazal-ob-ofshorakh-zammera-1043958-moskvy. xhtml>

⁷⁷ Corecam, the official website http://www.corecam.ch/managing_partners.html

that time Maxim Liksutov was one of the owners of Sermolent Equities Inc.⁷⁸, which manages a share of 12.8% in three Cypriot companies who own The Breakers Investments B.V.: Ammonis Trading Limited, Latorio Holdings Limited and Mafrido Trading Limited.

Founders of Ammonis Trading Limited:

- 12.8% – Sermolent Equities Inc.
- 75% – Maredaro Trading Limited⁷⁹

Founders of Latorio Holdings Limited:

- 12.8% – Sermolent Equities Inc.
- 75% – Prevalo Investments Limited⁸⁰

Founders of Mafrido Trading Limited:

- 12.8% – Sermolent Equities Inc.
- 75% – Compatico Investments Limited

Now let us consider the owners of companies Maredaro Trading Limited, Prevalo Investments Limited and Compatico Investments Limited. Until December 6 2011, 12.11% of Transmashholding shares were owned personally by Maxim Liksutov (Maredaro⁸¹, Prevalo⁸², Compatico⁸³). On the appointed day, the shares were transferred to Tatyana Liksutova (Maredaro⁸⁴, Prevalo⁸⁵, Compatico⁸⁶). On 4 September 2012, Utento Holdings Limited was also transferred to her (Maredaro⁸⁷, Prevalo⁸⁸, Compatico⁸⁹).

A week before the transition of Liksutov's shares to this offshore, Martin Lechner and Kai-Christian Brockstedt⁹⁰ – managing partners of the company Corecam AG⁹¹, which specializes in the management of family assets – became owners of Utento.

The ownership structure of The Breakers Investment B.V. for 2015:

- 25% – Russian Railways (Russia)
- 25% – Alstom Holdings (France)
- 13.26% – Ammonis Trading Limited (Cyprus)
- 13.26% – Latorio Holdings Limited (Cyprus)

⁷⁸ Offshore Leaks Database. The International Consortium of Investigative Journalists, <http://offshoreleaks.icij.org/nodes/193987>.

⁷⁹ <http://i.imgur.com/Gb2hrM1.png>

⁸⁰ <http://i.imgur.com/2u3syRa.png>

⁸¹ <http://i.imgur.com/JJUgOSm.png?1>

⁸² <http://i.imgur.com/pxksj18.png?1>

⁸³ <http://i.imgur.com/82T215E.png?1>

⁸⁴ <http://i.imgur.com/yPj1Cqz.png?1>

⁸⁵ <http://i.imgur.com/ubDEc63.png?1>

⁸⁶ <http://i.imgur.com/jfwOzdd.png?1>

⁸⁷ <http://i.imgur.com/uGRwKjs.png>

⁸⁸ <http://i.imgur.com/45ZN2R5.png>

⁸⁹ <http://i.imgur.com/IBTAy4v.png?1>

⁹⁰ <http://i.imgur.com/W23wQmF.png>

⁹¹ Corecam, the official website http://www.corecam.ch/managing_partners.html

- 13.26% – Mafrido Trading Limited (Cyprus)
- 2.5% – Silasio Trading Limited (Cyprus)
- 1.25% – Foldlane Investments Limited (Cyprus)
- 6.47% – Teromo Investments Limited (Cyprus)

The structure of shareholders of The Breakers Investments B.V. as at 31 December 2014 and 2013 is shown in the table below:

No.	Company	2014		2013	
		Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
1	Latorio Holdings Limited	6,364	13.26	6,364	13.26
2	Silasio Trading Limited	1,200	2.5	1,200	2.5
3	Teromo Investments Limited	3,108	6.47	3,108	6.47
4	Ammonis Trading Limited	6,363	13.26	6,363	13.26
5	Mafrido Trading Limited	6,364	13.26	6,364	13.26
6	Foldlane Investments Limited	600	1.25	600	1.25
7	OJSC Russian Railways	12,001	25	12,001	25
8	Alstom Holdings	12,001	25	12,001	25
Total		48,001	100.00	48,001	100.00

(Source: *The Breakers Investment B.V. company report for 2014*)⁹²

Alstom Relationship with Iskander Makhmudov and Andrei Bokarev

The main owners of shares in Transmasholding – Andrei Bokarev and Iskander Makhmudov – are also owners of the Ural Mountain-Metallurgical Company (UMMC), which conducts active work with the hereditary owner of the Bouygues firm – co-owner of Alstom, Martin Bouygues.

Bouygues has repeatedly spoken out about his close friendship with Iskander Makhmudov and Andrei Bokarev: "I also had the privilege of visiting Yekaterinburg, where we are building the Hyatt hotel for UMMC. On the other hand, I associate with Russia strong ties of friendship, especially with [co-owners of TMH] Iskander Makhmudov, Andrei Bokarev, or [general director and co-owner of UMMC] Andrei Kozitsyn, who are major Russian businessmen, with whom we develop important projects (...) "Russia is one of the exceptional countries for hunting. I used to hunt with my partners. I really like Iskander Makhmudov; he is a passionate hunter. As for Andrei Bokarev — he is not a hunter, but a fisherman."⁹³

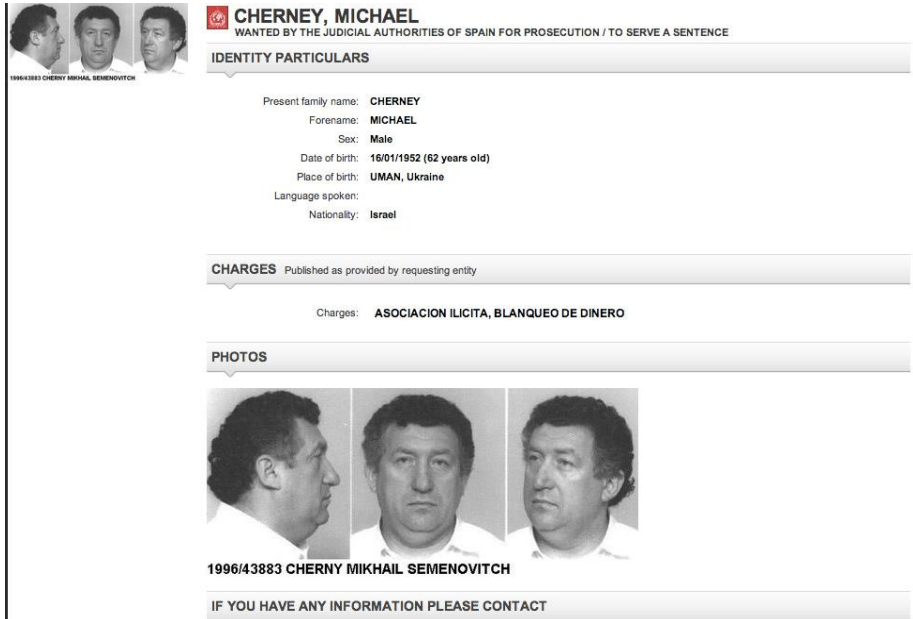
⁹² Commercial register of enterprises of the Kingdom of the Netherlands
<https://www.kvk.nl/handelsregister/zoekenframeset.asp?url=https%3A%2F%2Fserver.db.kvk.nl%2Fwwwsrvu%2Fhtml%2Fzoek.htm>

⁹³ Proskurnina O. Martin Bouygues: "The idea to create in Russia a sort of Silicon Valley is wise". "Vedomosti", 03/08/2011
http://www.vedomosti.ru/library/news/1387851/marten_buig_ideya_sozdat_v_rossii_svoego_roda_kremnievuyu

The criminal ties of UMMC and Kuzbassrazrezugol

Iskander Makhmudov and Andrei Bokarev own another large enterprise in Russia, alongside ZAO "Transmashholding" and UMMC: OAO "Kuzbassrazrezugol" (coal mining).

These firms are known for their numerous criminal ties. The consolidation of the companies Kuzbassrazrezugol and UMMC began with investments by Michael Cherney in 1997. Today, Michael Cherney is internationally wanted on charges of money laundering.⁹⁴



The image shows an Interpol 'Wanted' list entry for Michael Cherney. At the top left, there are three small portrait photos of the individual. To the right of these photos, the name 'CHERNEY, MICHAEL' is displayed in bold, followed by the text 'WANTED BY THE JUDICIAL AUTHORITIES OF SPAIN FOR PROSECUTION / TO SERVE A SENTENCE'. Below this, the section 'IDENTITY PARTICULARS' is expanded, showing the following details: Present family name: CHERNEY; Forename: MICHAEL; Sex: Male; Date of birth: 16/01/1952 (62 years old); Place of birth: UMAN, Ukraine; Language spoken: ; Nationality: Israel. The 'CHARGES' section is also expanded, showing 'Published as provided by requesting entity' and 'Charges: ASOCIACION ILICITA, BLANQUEO DE DINERO'. Below the charges, the 'PHOTOS' section is expanded, showing three larger portrait photos of the individual. At the bottom of the photos, the identification number '1996/43883 CHERNY MIKHAIL SEMENOVITCH' is visible. At the very bottom of the entry, there is a line that reads 'IF YOU HAVE ANY INFORMATION PLEASE CONTACT'.

Iskander Makhmudov was also one of the subjects of a criminal case in Spain.⁹⁵ In 2005-2006, in the course of the "Wasp" operation, Spanish law enforcement authorities detained alleged members of the so-called Izmailovskaya organized crime group. The Izmailovskaya group is named after Izmailovo – a Moscow neighborhood from those early post-Soviet days. In August 2007, German investigators put a man presumed to be one of Ismailovskaya's bosses on trial in nearby Stuttgart. «According to the prosecutors, the group specialized in the extortion of protection money and committing contract killings during the brutal struggles that followed the deregulation of the aluminum industry. They also believe that the organization worked for men who are now among Russia's richest oligarchs and invest their billions in Western construction outfits or companies in the automotive industry. Their brutal henchmen at Izmailovskaya are believed to control assets worth about \$800 million today.»⁹⁶

⁹⁴ Interpol "Wanted" list. Cherney, Michael <http://www.interpol.int/notice/search/wanted/2009-21842>

⁹⁵ Kirilenko A. Mafia in state order What binds the Kremlin with izmajlovskay group. The Insider, 02.10.2015 <http://theins.ru/korrupciya/13846>.

⁹⁶ Ulrich A., Money Laundering: Germany Puts Suspected Russian Mafia Boss on Trial. Der Spiegel 14.08.2007 <http://www.spiegel.de/international/world/money-laundering-germany-puts-suspected-russian-mafia-boss-on-trial-a-499854.html>

Ultimately, Spanish investigators during the “Wasp” operation obtained documents that may indicate that the Russian mafia in 2001-2004 laundered 4 million euros through the company Vera Metallurgica, which is registered in the Spanish Alicante.⁹⁷

Three businessmen – Michael Cherney, Iskander Makhmudov and Oleg Deripaska, according to Spanish investigators – are co-owners of the Vera Metallurgica, a subsidiary of Ural Mining and Metallurgical Company (UMMC) and, accordingly, are involved in the laundering of these funds.⁹⁸ The investigation also did not rule out the possibility that the money was laundered through UMMC, which is owned by Makhmudov.

Connection between Gennady Petrov, arrested in Spain, and the Kuzbassrazrezugol company

In 2005, Anton Petrov, the son of Tambov gang leader Gennady Petrov,⁹⁹ owned 47.5% of the company «Riostyle», which in 2006 owned 17% of OAO «Kuzbassrazrezugol».¹⁰⁰ After arresting Gennady Petrov, “Prosecutors in Madrid have filed a 488-page petition to charge 27 people with money laundering and fraud in connection with the St. Petersburg-based Tambov crime group's setting up shop in Spain in 1996.”¹⁰¹ According to this document, “Petrov used Spain as a base to carry out criminal activities mainly in Russia, including murder, arms trafficking, drug smuggling, extortion and fraud, the prosecutors say, repeating some of the accusations that led to his 2008 arrest.”¹⁰²

According to the Spanish investigation, Gennady Petrov has maintained close contact with Anatoly Serdyukov (former Minister of defence of the Russian Federation), Viktor Zubkov (former Prime Minister), German Gref (ex-Minister of economic development and trade of the Russian Federation), Alexander Bastrykin (Chairman of the Investigative Committee of the Russian Federation), Leonid Reimann (former Minister of communications of the Russian Federation) and other former and current senior officials.¹⁰³

“In particular, according to the indictment, Petrov called the Head of the Investigative Committee of the Russian Federation, Alexander Bastrykin, “Sasha” in conversations and often used the personal airplane of “Slava” — State Duma deputy Vladislav Reznik, reports ‘The Insider’, Russian investigation portal.¹⁰⁴

⁹⁷ Ibid.

⁹⁸ Spanish judge questions Russian tycoon in \$ 5.5 mln laundering case. «Sputnik», 5.12.2010 <http://sputniknews.com/russia/20100512/158993170.html>

⁹⁹ Gennadi Petrov – a criminal, one of the leaders of the so-called Tambov criminal organized group, was arrested in Spain in 2006.

¹⁰⁰ Rubahin K. Kuzbassrazrezugol http://rubakhin.org/?page_id=793

¹⁰¹ Bertrand N. A Spanish investigation into the Russian mafia 'could change the narrative of Putin in the West', Business Insider 30.06.2015 <http://www.businessinsider.com/prosecutors-putins-cronies-helped-the-russian-mafia-work-in-spain-for-more-than-a-decade-2015-6>

¹⁰² Duarte E., Meyer H. Putin Allies Aided Russian Mafia in Spain, Prosecutors Say, Bloomberg, 30.06.2015 <http://www.bloomberg.com/news/articles/2015-06-29/putin-allies-aided-russian-mafia-in-spain-prosecutors-say>

¹⁰³ Ibid.

¹⁰⁴ Kirilenko A. Mafia in state order. How the new Kremlin oligarchs are linked to the underworld, The Insider, 02.07.2015 <http://theins.ru/korruptsiya/10407>

Quote: "In 1992 Gennady Petrov and Alexander Malyshev were arrested in St. Petersburg on charges of extortion and the establishment of a criminal association, but were released after receiving derisory sentences for the possession of weapons, and left for Spain. According to a member of the Japanese Yakuza (his name is Kinichi Kamiyasu, the documents are in the St. Petersburg case of Petrov-Malyshev, a copy of which is held by The Insider), Malyshev and Petrov in fact controlled the municipal Casino "Neva Chance" established by City Hall at Vladimir Putin's City Committee for External Economic Relations address (according to Vladimir Putin, the money from the Casino was to go to "poor people", but nothing came of it because the Casino worked with black cash)".

As can be seen from this case, as well as from the validation act of the Ministry of Finance from 1996, structures of Petrov and Malyshev, with the participation of Vladimir Putin's friend, showman Vladimir Kiselev organized so-called pop-festivals in St. Petersburg in 1992-1994, funded through the corporation "XX trust", which in turn was funded from the budget of St. Petersburg. The corporation creatively used budgetary funds, building mansions and hotels in Alicante and Torrevieja in Spain in the early 90's. Gennady Petrov went to Alicante in 1996, reports The Insider.¹⁰⁵

In 2006, the company Kuzbassrazrezugol came under the complete control of Iskander Makhmudov. Consequently, we can conclude that the personal relationship of Iskander Makhmudov and Gennady Petrov, confirmed by the Spanish investigation, has a direct impact on the Russian companies Kuzbassrazrezugol and the Ural Mining and Metallurgical Company, headed by the owners of the "Transmashholding" – Iskander Makhmudov and Andrei Bokarev.

From 2002 to 2006, the company Carbo One Limited (formerly Alinos Enterprises Limited) – the main trading company affiliated to Kuzbassrazrezugol – is headed by Marin Marinov. In this same period, he heads Maricopa Trading Limited, which is one of the co-owners of Kuzbassrazrezugol. According to the Spanish police investigating the case of money-laundering through the company Vera Metallurgica (controlled by UMMC), the role of Iskander Makhmudov is determined in this chain by links with a transnational criminal organization, via Marin Marinov, who was hired to manage enterprises engaged in money-laundering.¹⁰⁶ The criminal case in which the names of Iskander Makhmudov, Oleg Deripaska, Marin Marinov and Michael Cherney appear was initiated when operation "Wasp" resulted in the seizure of documents containing information about these transactions in 2005, along with the arrest of mobster Gennady Petrov in Spain.

From 2004 to 2009, the present director of The Breakers Investments B.V. – which owns 100% of ZAO "Transmashholding" – Indrek Gusev, was director of the Austrian company KRUTrade – the principal trader of Kuzbassrazrezugol products.¹⁰⁷ Another former head of KRUTrade, Alexander Tukatsinskiy (2003-2005), is also on the Board of Directors of

¹⁰⁵ Ibid.

¹⁰⁶ Kirilenko A. Spain learned the word "thief". Radio "Svoboda", 13.12.2010
<http://www.svoboda.org/content/article/2220620.html>

¹⁰⁷ Rubahin K. Krutrade AG. http://rubahin.org/?page_id=464

The Breakers Investments B.V.

The current head of the Moscow Department of Transport, and probable co-owner of ZAO "Transmashholding" Maxim Liksutov could have indirect links with Gennady Petrov through his partner – the son of a former Russian Minister of Railways Nikolai Aksyonenko, Rustam Aksyonenko, with whom Liksutov has co-owned a forwarding company called Unitrans in Estonia since 1999.¹⁰⁸ The company has been providing services in the field of transportation, later sparking the interest of Russian law enforcement agencies, who have instituted a criminal case against Nikolai Aksyonenko. According to information from the Counting Chamber of the Russian Federation, the Ministry of Railways has lowered transportation costs for freight belonging to forwarding companies headed by people close to Aksyonenko,¹⁰⁹ allowing them to receive extra profits and remove these profits from the Russian Federation. The case was closed in Russia in connection with the death of Nikolai Aksyonenko in 2005.

At the same time, Italian police found that structures close to the Ministry of Railways, registered in Switzerland, may be involved in the laundering of 5-7 billion euros that were illegally withdrawn from Russia.¹¹⁰ At the time, the company Kuzbassrazrezugol was closely affiliated with the Ministry of Railways, including sharing directors with certain Swiss companies. For example, the co-director of Krutrade AG company¹¹¹, headed by Bokarev until 2000, is Toni Stadler (judging by extracts from different registries, Toni Stadler also goes by the names of Antony Stadler and Anton Stadler),¹¹² who is associated with several firms that lead to top managers at the Ministry of Railways, subsequently reorganized into the LLC "Russian Railways". One of the permanent co-directors working with Anthony Stadler is Michael Albert,¹¹³ who manages the company Transrail AG¹¹⁴, through which, according to Italian police, 5-7 billion dollars were smuggled out of Russia. This criminal case included past and present leaders associated with the Ministry of Railways and OAO "Russian Railways". As part of this investigation, Andrei Marisov, Vice-President of Termitrans Service SA was detained by the Paris police in the company's office on the Champs-Elysees. The company functioned as French representative of Transrail AG.

Albert Werner¹¹⁵ managed Transrail Holding AG¹¹⁶, together with Nikolai Makurin, who was detained by the Italian police within the same police operation with Marisov. Makurin was on the boards of several companies in Switzerland and France, which,

¹⁰⁸ The Estonian authorities are ready to release Maxim Liksutov from Estonian citizenship. "MK-Estonia, 13.02.2012 <http://www.mke.ee/persona/vlasti-estonii-gotovy-osvobodit-Maxima-liksutova-ot-estonskogo-grazhdanstva>

¹⁰⁹ Mkrtschan G., Chief railwayman of Russia is equaled to the oligarchs. Compromat. ru, 27.07.2000 http://www.compromat.ru/page_9992.htm.

¹¹⁰ The response of S. Sokolov, Head of "Atoll" agency, to the answer of Soyuzvneshtrans and personally to its Manager, Mr. Antonov. Compromat. ru, 13.12.2006 http://www.compromat.ru/page_9992.htm.

¹¹¹ Moneyhouse http://www.moneyhouse.ch/en/u/p/krutrade_ag_CH-310.3.000.751-0.htm

¹¹² Moneyhouse http://www.moneyhouse.ch/en/u/p/krutrade_ag_CH-1588287.htm

¹¹³ Moneyhouse-http://www.moneyhouse.ch/en/p/albert_michael_3776867/index.htm

¹¹⁴ Moneyhouse http://www.moneyhouse.ch/en/u/p/krutrade_ag_CH-320.3.040.512-8.htm

¹¹⁵ Moneyhouse http://www.moneyhouse.ch/en/u/p/albert_werner-2958113/transrail_holding_ag_CH-320.3.030.192-1.htm

¹¹⁶ Moneyhouse http://www.moneyhouse.ch/en/u/p/albert_werner-320.3.030.192-1/transrail_holding_ag_CH-320.3.030.192-1.htm

according to the Italian investigation, are controlled by criminal network and are used to launder money¹¹⁷. Vladimir Yakunin (later head of the “Russian Railways”) also worked together with Nikolai Makurin in Transrail Holding AG from 2002 to 2004. This company has a direct relationship to the son of the Minister of Railways, Rustam Aksyonenko. Transrail AG – now InterRail Services AG – is the indirect owner of up to 27.53% shares of Kuzbassrazrezugl, which is controlled by Iskander Makhmudov and Andrei Bokarev.¹¹⁸

Makurin and Albert deny all charges. Although the Bologna Prosecutors’ Office issued an international warrant for the arrest of Albert, the Swiss investigators and police limited itself to a search of the company’s premises.¹¹⁹

Scandals involving Alstom in Russia and other countries

Alstom’s connection with the Russian authorities is not limited only to transport. Alstom also owns the shipyards where the Mistral-class helicopter carriers were built for Russia.¹²⁰

In November 2015, the United States District Court in Connecticut passed a decision under which Alstom has to pay a fine of \$ 772 million. The Press Service of the US Ministry of Justice notes that Alstom gave bribes to government officials and garbled accounting records regarding energy and transport projects that have been developed for state-owned enterprises around the world.¹²¹

Possible ways to combat transborder corruption

Let’s consider the situation with the company Transmashholding: the potentially corrupt scheme created in Russia has involved a number of European countries – France, where Alstom operates; the Netherlands, whose commercial register has a single owner of TMH, and Switzerland, which opened the company’s bank account.

A corrupt component of the deal between Transmashholding and the Moscow Department of Transport can also be proven through the statements of owners of firms located in European registers and the register of the British Virgin Islands, while some of Maxim Liksutov’s assets, as stated above, are managed by the Swiss company Corecam AG.

Based on these data, and given the impossibility of opening a similar criminal case in Russia – proven by repeatedly filing lawsuits on this situation to all law enforcement

¹¹⁷ The response of S. Sokolov, Head of "Atoll" agency, to the answer of Soyuzvneshtrans and personally to its Manager, Mr. Antonov. Compromat. ru, 13.12.2006 http://www.compromat.ru/page_9992.htm.

¹¹⁸ Moneyhouse http://www.moneyhouse.ch/en/u/p/krutrade_ag_CH-320.3.040.512-8.htm

¹¹⁹ Седых И. Большая стирка. “Совершенно секретно”, 01.08.2002 <http://www.sovsekretno.ru/articles/id/866>

¹²⁰ French authorities did not want to put their engineering in the hands of the United States. RIA "Novosti", 27.04.2014 <http://ria.ru/world/20140427/1005682590.html>

¹²¹ The US Court ordered Alstom to pay a record fine for bribes. Slon.ru, 14.11.2015 <https://slon.ru/posts/59628> and <http://www.justice.gov/opa/pr/alstom-sentenced-pay-772-million-criminal-fine-resolve-foreign-bribery-charges>

agencies – formats can be envisaged for cooperation between European law enforcement bodies and civilian investigators. One possible form is a public council, which would include representatives from Interpol, the financial police from European countries and members of the NGOs, which are engaged in investigations. In the course of the work, the council could address themes of investigation, while professional anti-corruption campaigners could be expected to assist in the preparation of statements, including their form and their recipients. The same body would maintain constant feedback between civilian investigators and the law-enforcement departments active in EU countries.

Conclusions

Civil investigations, while not a substitute for law enforcement bodies' investigations, could significantly complement their work by identifying signs of transborder corruption. Indications of corruption collected by civil investigations assist law enforcement bodies in making decisions about legally significant investigations into possible criminal acts. This report presented the results of two such investigations, which have found possible signs of transborder corruption.

The first investigation by Grigory Pasko gives an analysis of the actions of Gazprom and Nord Stream AG related to the construction of the Nord Stream gas pipeline. A number of questionable actions are described, more or less hidden from the public, by officials of these two interrelated companies. For many of these actions there are grounds for suspicion that they had a motive linked to corruption. Some actions by Gazprom however should be assessed as manifestations of *national* Russian corruption, rather than *transborder* corruption, which is the subject of the present report.

Signs of transborder corruption, in some cases weak signs, in other cases more pronounced, which ought to be further investigated by law enforcement agencies are:

- The nomination of former German Chancellor Gerhard Schroeder as the chairman of the North European Gas Pipeline Company; cooperation with Gazprom by the ex-Prime Minister and Foreign Minister of Sweden Carl Bildt, as well as the former Prime Minister of Finland Paavo Lipponen, who became an independent consultant in the company Nord Stream AG a few years ago. These former high-ranking government officials who had presumably already been promised these posts while maintaining extensive ties within their own countries and elsewhere in Europe could, in their current positions, hardly support the adoption of objective political decisions by the heads of European states with regard to the projects of Gazprom, the Russian state-owned company;
- "Buying loyalty". Questionable ways of solving environmental problems related to the construction of the Nord Stream pipeline. Ecologists suggested laying more pipes for the Nord Stream gas pipeline through existing gas corridors, which would considerably reduce the potential environmental damage. Considerable opposition from nature conservation and community organizations in Sweden disappeared, apparently after questionable and nontransparent actions of so-called "buying loyalty", examples of which were shown in the text;
- Lack of precise information concerning the full construction costs of Nord Stream gas pipeline. The Russian part of the estimate of the project is the most nontransparent one, and there are indications of over-accounting of the expenditures for this portion by several hundred percent on the Russian side, and since construction was carried out by means of the state budget, overestimation on this scale was most likely due to corruption.

The second investigation provided an analysis of possible involvement in transborder corruption of Transmashholding, one of the largest Russian private companies in the

field of transport engineering. This investigation used the analysis of the structures of private companies' ownership connected in some way or another with Transmashholding. The correlation of the results of this analysis with the activities of such companies, first and foremost, in their participation in competitions for government orders, leads to more or less explicit signs of transborder corruption, which, as with the investigation by Grigoriy Pasko, can be checked by law enforcement authorities.

Signs of transborder corruption related to Transmashholding activities are:

- Most likely, Transmashholding has connections to the Moscow Department of Transport, which is a regional authority managing tenders for the delivery of transport engineering products to Moscow. The head of the Moscow Department of Transport, Maxim Liksutov, likely maintained a connection with Transmashholding, part of which he officially owned before being appointed to the post. This means the tender procedure was not objective and fair, and was very likely biased towards Transmashholding. Since the Transmashholding system includes Swiss, Cypriot and Dutch companies, this would mean they are all linked to transnational corruption;
- It is suspected that the Transmashholding owners, Iskander Makhmudov and Andrei Bokarev, are involved in private business with companies that previously were and perhaps continue to be owned by the Russian crime boss, Michael Cherney, who is now on the international wanted list on charges of money laundering. Certainly, if European private companies wanted to exclude the possibility of transborder corruption and, even more widely, transborder crime, they should not have any joint ventures with Transmashholding, given its reputation;
- There are also suspicions that the present head of the Moscow Department of Transport, Maxim Liksutov, continues to be the owner of part of Transmashholding. Russian law prohibits any such ownership. Liksutov had also had informal links with the former leader of the now-disbanded Russian Ministry of Railways, Nikolai Aksyonenko. The last claims were of corrupt activities on the part of the Russian Accounts Chamber, but the criminal investigation was "closed in connection with the death of Nikolai Aksyonenko in 2005". However, as indicated earlier in this report, "At the same time, Italian police as a result of operation "Spiderweb", held in 2002, found that structures close to the Ministry of Communications registered in Switzerland may be involved in the laundering of 5-7 billion euros that were illegally withdrawn from Russia. These are certain signs of transborder corruption that ought to be investigated by law enforcement agencies.
- French engineering company Alstom currently owns shares in Transmashholding. According to investigations by the US courts, "Alstom" gave bribes to government officials and garbled accounting records regarding energy and transport projects that have been developed for state-owned enterprises around the world. Therefore, there is a very high likelihood that Alstom participated in transborder corruption. This should also constitute sufficient grounds for the countries of the European Union to start investigating Alstom's relations with Transmashholding.

Recommendations

Cross-border corruption as one of the manifestations of global corruption is quite a complex phenomenon that has many diverse factors contributing to its development. Certainly, it would be desirable to undertake a systematic analysis of these evidence-based factors, and, on the basis of its conclusions and recommendations, develop a strategy to fight transborder corruption. This strategy would, of course, have the status of a recommendatory document both for international organizations and national governments. But, later on, the basis of such a strategy could be to formulate a **Convention “On combating transborder corruption”**. The Convention itself could include obligations for national states to improve their legislation and a requirement to initiate legal investigations in specified circumstances.

On the basis of the investigations conducted, the authors propose the following measures against transborder corruption:

1. To significantly increase the level of transparency of cost estimates and the controlling of their enforcement in all international investment and construction projects in the area of the European Union and Russia. This transparency level must be enough for the project partners, law enforcement agencies, media and civil society to have full and objective information on how much funds, and from which sources, are spent and how.
2. To take measures to prohibit “buying loyalty” amongst the local population, state and non-state actors on the legal level. Corporations must exclude such kinds of public relations from their activities.
3. The broad use of the standards of compliance-control system¹²² as criteria for refusing cooperation of national states and the European Union with private corporations with a dubious reputation and questionable funding sources who are suspected of involvement in corruption at the national or international level.
4. To European and Russian investigative bodies (Interpol, Europol, police, etc.), it is worth organizing more platforms for cooperation with civil society investigators, NGOs, journalists, bloggers, for both purposes: to increase the exchange of operational information, ideas and thoughts, and to make state and international investigations more transparent for the public.
5. To increase any other ways of cooperating with the civil societies in the countries of the EU and Russia, considering them as adherents assisting the international bodies in fighting corruption around the globe.

The authors of this report hope that discussion of these proposals will help to advance the development and adoption of an international Convention “On combating transborder corruption”, the support of the initiatives of civil society organizations and the media to investigate such corrupt practices, and as a result, to lower its level in Russia, in Europe and in the world as a whole.

¹²² Compliance (compliance - agreement, accordance) - internal control over compliance of the activities of private company legislation with rules and standards of oversight bodies, industry associations and self-regulatory organizations, codes of conduct and ethics.

Colophon

Contact:

Harry Hummel, Editor
Director, Netherlands Helsinki
Committee
The Hague, the Netherlands
E-mail: HHummel@nhc.nl

Andrey Kalikh, Editor
Coordinator of the working group
“Fighting Transborder Corruption”
St. Petersburg, Russia
E-mail: akalikh@yandex.ru

The EU-Russia Civil Society Forum was established in 2011 by non-governmental organisations as a permanent common platform. At the moment 151 NGOs from Russia and the European Union are member of the Forum. It aims at the development of cooperation between civil society organisations from Russia and EU and greater participation of NGOs in the EU-Russia dialogue. The Forum has been actively involved in the issues of facilitation of visa regime, development of civic participation, protection of the environment and human rights, dealing with history, and civic education.

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EU-RUSSIA CIVIL SOCIETY FORUM / ГРАЖДАНСКИЙ ФОРУМ ЕС-РОССИЯ

Address (Secretariat): Deutsch-Russischer Austausch e.V. (German-Russian Exchange)
– Bad St. 44, 13357 Berlin, Germany, Tel. + 49 (0)30 44 66 80 0

Адрес (Секретариат): Немецко-Русский Обмен –Бадштрассе 44, 13357 Берлин,
Германия, тел. + 49 30 44 66 80 0

Website: www.eu-russia-csf.org **E-mail:** info@eu-russia-csf.org

Facebook: [EU-Russia Civil Society Forum](https://www.facebook.com/EU-Russia-Civil-Society-Forum/) **Twitter:** [@EU_Russia_CSF](https://twitter.com/EU_Russia_CSF) **YouTube:** EU-Russia Civil Society Forum