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ГРАЖДАНСКИЙ ФОРУМ ЕС-РОССИЯ

Lack of Transparency and Indications of Transborder Corruption in Investment Projects in Russia

**EU-Russia Civil Society Forum
Fighting Transborder Corruption Expert
Group**

Report

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Foreword: the Human Dimension of Transborder Corruption

Andrei Kalikh, independent journalist, Russia

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«*Corruption kills*». This was the powerful summary by Huguette Labelle, the former Chair of Transparency International and currently Chair of the UN Global Compact's Business for Good Governance at the OSCE Economic and Environmental Dimensions meeting in October last year.¹

Corruption is a devastating instrument threatening both societies and states. Civil activists, human rights advocates and active citizens must realize this if they want to successfully oppose it.

Corruption, as described in reports and analyses, is often considered as a socio-economic and political concept. This makes sense, since corruption often has its roots in power-based motives and knows many socio-economic incentives and deterrents. Who has the power to reward, comes in contact with corruption. Benefits, rewards and favours all relate to power and to socio-economic means and standing. The more wealth and power one gathers, the more favours one can give and demand. The saying is thus often true that power corrupts.

But, take a step back, and we find a psychological concept, rooted in basic survival mechanism and in-group preference.² Corruption, it seems, comes natural to man. Yet, as societies grew more complex, so the tools of survival shifted. The mechanism became to be seen as "corrupt", or "utterly broken", and societal norms denounced the practice. To ensure that corruption was kept in check, tools and mechanisms, such as transparency and due diligence legislation, were devised to counter these "natural" corrupt tendencies, and to help establish a more fair system of opportunities. Still, the practice continues as a psychological concept, and as a socio-economic and political process.

On the other side of the spectrum, in the world and our daily lives, corruption kills people. In many ways the machinations of psychology, economy and politics hurt everyday people in their everyday lives.

Indeed, in some cases corruption infects a country to such an extent that it becomes deadly. One of the authors of this report, Russian researcher Vladimir Rinsky describes the effect of the contagiousness of corruption, i.e. its capability of infecting more and more public officials if no effective anti-corruption measures are in place. The main signs manifest when corruption has captured the state are limitations of civil rights and freedoms and the impunity of "*corruptionists*", who are not just free from prosecution but also feel protected in their corruption-seized state.

Corruption can become merciless. It kills, when wars and armed conflicts start in order to conceal its scale and consequences, when planes fall due to non-transparent tenders, when a police officer releases a criminal for a bribe. It kills when health care is no longer available for those who cannot or do not want to pay corruption tribute.³

In Russia, this phenomenon has become an important factor not just in its economy, but also in its domestic and foreign policy. However, the greatest impact is on society and citizens. Due to corruption, citizens have no access to aspects of national welfare, which stimulates the growth of social discrimination and deepens the divide between the rich and the poor. While the rich pay bribes mainly to gain more benefits for themselves, the poor have to pay to get what they are entitled to by law.

The observance and protection of human rights and freedoms in a corrupt state also come under threat. According to the previous investigations conducted by Russian experts in this expert group, there is a direct link between human rights violations and corruption: the higher the level of corruption, the more frequently human rights are infringed in the country⁴.

Russian police can serve as a case in point of a sphere in which corruption directly interferes with the human rights. As this structure is impenetrable for public control, human rights violations constantly occur: tortures, ungrounded detention, and falsified evidence. Because of corruption, crimes are often left uninvestigated and criminals avoid punishment, while innocent victims find themselves imprisoned.⁵

Corruption and the Freedom of the Press

It is not surprising, that a corrupt state is eager to suppress independent mass media and to take control over sources of information. Archives remain closed, the work of the state authorities is not transparent, opposition and independent web sites are blocked.

Journalism is one of the most dangerous professions in Russia. According to the monitoring of the Glasnost Defence Foundation, five journalists were killed and another 12 were attacked in 2014 in different regions of Russia.⁶ Any investigative journalist collecting information on criminal affairs involving public officials risks facing with pressure, censorship, threats and direct physical violence.

In the context of limited freedom and the pressure exercised by the state, the landscape of mass media is changing. Investigative journalism is practiced by independent 'lone rangers'. Most successful anti-corruption investigations are conducted not by mass media but by independent researchers, civic activists, bloggers and NGOs. Human rights advocates and environmentalists also become civic journalists as they conduct their own very effective investigations.

Anti-corruptionists, be it from the opposition, civil activists or bloggers, come under severe pressure for any real or alleged offences; any formal reason can lead to blocking their work or public discrediting. Several staff members of Aleksey Navalny's Anti-Corruption Fund, the best-known anti-corruption public initiative, have had criminal cases initiated against them under accusations of different offences ranging from fraud to theft.⁷ Members of our workgroup, Yevgenia Chirikova, leader of the *Khimki Forest Defence*, and Konstantin Rubakhin, coordinator of the *Save Khopyor* movement, have left Russia due to the threats they received.

In a non-transparent country, corruption has become a main reason for the growth in the number of human rights violations. It is not surprising, therefore, that the human dimension of corruption, i.e. how it affects regular people in their daily lives, has come under close observation by human rights organizations and public activists.

Project background

Russia provides good material for studying transborder corruption. Research shows that corruption has penetrated the state machinery to such an extent that it has become part of the state policy.⁸ It also provides the ground for the development of 'family' economy of members of elites who have access to power. It is not only honest, open and transparent businesses that come to work in Russia. The ease, with which it is possible to earn a fortune by improper means, evading the laws, civil rights and freedoms, sanitary and environmental regulations attracts dishonest businessmen and corrupt officials from all over the world. This is why the international anti-corruption expert group has started documented corrupt projects implemented in Russia by international and Russian corporations and officials.

The idea to create a joint Russian-European expert group to fight transborder corruption belongs to several active members of environmental, human rights and investigative organizations participating in the EU-Russia Civil Society Forum. The group was created in November 2014.

At the moment of writing, it includes the following members of NGOs and civil initiatives: Dmitry Shevchenko (Environmental Watch in North Caucasus, Russia), Konstantin Rubakhin (*Save Khopyor* movement, Russia), Yevgenia Chirikova (*Khimki Forest Defence*, Russia),

Tim van der Maarel (the Netherlands Helsinki Committee), Denis Primakov (Transparency International, Russia), Vladimir Rinsky (INDEM Foundation, Russia), Olexi Pasyuk (Bankwatch, Czech Republic), Grigory Pasko (investigative journalist, Russia), Kate Watters (Crude Accountability, the USA), Łukasz Wenerski (Institute of Public Affairs), and Andrei Kalikh (independent journalist, Russia).

Object of investigation. What is transborder corruption?

In this research, the term ‘transborder corruption’ means corruption operations that have an international (transborder) character. In particular, it means the participation of European businesses, corporations and companies, their management and representatives, as well as state officials of EU countries, in corrupt projects and deals in Russia, and their assistance to Russian citizens in organizing such projects and deals overseas. Transborder corruption manifests itself in the accumulation of non-transparent capitals in European banks, the use of international financial institutions and corporations for money laundering, bribing European officials or top business managers, etc.⁹

Projects featuring transborder corruption in Russia are usually large-scale, have far-reaching plans and use vast investments. This is not surprising, as the masterminds behind the non-transparent deals are usually officials and influential regional or federal politicians. They have a wide range of methods for achieving goals and suppressing protest movements: organization of the ‘right’ expert evaluations, falsifying the results of public hearings, substituting specially organized quasi-public pro-government groups for real protest movements, the use of the administrative resource to conduct outreach campaigns, etc.

This report contains two telling examples of such practices.

In the first case, a Liquefied Natural Gas loading terminal was constructed on the Black Sea coast of Taman Peninsula, partly financed by the International Finance Corporation. This example demonstrates how, as a result of non-transparent deals, great damage is inflicted on the environment and the rights of local residents are violated.

The second case is the unlawfully constructed mining plant exploiting a copper and nickel deposit near the Khopyor river in the Voronezh region, which was built by the order of the Ural Mining and Metallurgic Company. This case reveals a tell-tale link between Russian businessmen implementing the project with officials in the Russian Government, and discloses the involvement of several European companies.

The cases described in this paper take place in different regions of Russia. However, they have numerous things in common. In both cases, corruption links lead to the same business elites and disclose the involvement of the same officials, such as Vladimir Yakunin, Head of OAO Russian Railways. In both cases, Western corporations and capitals are involved in the projects. In both cases, the corrupt businessmen and officials work together against the local population, while local activists are subjected to pressure and violence.

The authors of this report believe that the ‘grey’ transborder business schemes with Russia should make the political world, the media and the informed public think about the extent to which the political regime in Russia may owe its build-up to its close links with corrupt Western officials who support it and believe that it stands for stability and democracy in Russia.

The organizers and experts participating in this project did not mean to conduct criminal investigations, as we are neither the Investigative Committee nor Interpol. Our main aim is to combine the efforts of public forces: human rights advocates, environmentalists, journalists, and bloggers to fight international corruption. We want to convince the European governments and civil societies that it is necessary to demand higher transparency and openness, and to pass laws that make it impossible to use private or state capitals in corruption deals overseas.

We do this work to enlist the sympathies of as many as possible independent investigative journalists and public activists in order to make the cases of transborder corruption public and to develop ideas how to oppose it.

This is a difficult and long-term job, but the first step has already been made: we offer a platform for cooperation to investigators from Russia and the European Union.

Below is the first result of this work.

Corruption and non-ferrous mining in Russia: a case study on the Khopyor area near Voronezh

Konstantin Rubakhin,
Coordinator of the public movement "Save Khopyor"
Russia

The conflict around the nickel mining project on the Khopyor River is a prime example of the whole decision making system in Russia: the concerns of the local population is ignored, and the economic gain for the state is low.

Area Profile

The Khopyor, the largest tributary of the Don, flows across the Penza, Saratov, Voronezh and Volgograd Regions. In the Voronezh Region, in the vicinity of the village of Novokhopyorsk, copper and nickel deposits have been discovered (the Yelanskoye and Yolkinskoye copper and nickel ore deposits). This area is situated in the Black Earth District, a farming zone with extremely fertile soil.

To develop the copper and nickel deposits in the Voronezh Region, it will be necessary to take out of agricultural use approximately 700 hectares of black earth ground containing 385 000 tons of valuable humus rich soil. The outflow and pollution of subterranean waters will affect the local farms, the impact spreading a lot further than the 700 hectares of allotted land.

At present, neither the licensing body nor the developers have conducted a detailed appraisal of the prospective development. Nor have they taken into account the loss of profit that will occur if the valuable soil is used for purposes other than farming. According to a preliminary estimation by the Save Khopyor movement, the loss will amount to one trillion rubles (ca. 20 billion euro) just for the area intended for the plant, mines and dumping sites. This amount, which is calculated for a period of 100 years, shows that the development of the deposit will prove sub-economic.¹⁰

A solid cube of black earth with 1.5-meter long edges from a place near Voronezh was exhibited at Paris Expo in 1889¹¹. This is the most fertile soil in the world, and takes thousands of years to generate. One centimetre of such soils takes on average of 100 years to grow.

Occupying 1% of Russia's territory and accommodating 5% of its population (even given the decline of agriculture), the Central Black Earth District produces over 20% of the country's vegetable oil, over 40% of its sugar, 12.2% of its grain, as well as numerous other products.

The farming sector of the Voronezh Region contributes 12 to 14% to Russia's GDP, employing 163 000 people. The region's total rural population is 831 000.¹²

In 2011, the annual turnover of agricultural produce in the Voronezh Region was over 100 billion rubles (over 2.5 billion euro, at the exchange rate of December 2014).¹³

The Novokhopyorsk District occupies 2 300 square kilometres and has a population of 40 200, including 19 100 economically active individuals. 17,700 are employed in the local economy.

Agriculture is the main industry of the district. The farm area occupies 160 791 hectares, including 109 635 hectares of cropland, 6 595 hectares of hayfields, and 40 846 hectares of pasture fields¹⁴.

The most well-known nature protection site is the Khopyor State Nature Reserve, which is only 15 to 19 kilometres away from Yolkinskoye and Yelanskoye copper and nickel ore deposits.

The Khopyor Nature Reserve was created to preserve and study the typical alluvial ecosystems of the Khopyor River and the habitat of the Russian muskrat, an epibiotic insectivore typical for the area. This is also a major wildfowl reserve (a Regional Important Bird Area according to Bird Life International).

In the Khopyor Nature Reserve, there are several habitats suggested for protection in Resolution 4 (1996) of the Standing Committee of the Bern Convention: vast forests of old oak trees, bogged black alder woods, alluvial willow shrubs, mesophilic meadows, sand steppe areas, and the water plant communities with its 400 water basins and lakes.

The Nature Reserve has 1 090 different plant species, 77 moss species, 115 lichen species and over 300 mushroom species. Its fauna includes 42 fish species, 9 species of amphibians and reptiles, 236 bird species, 48 mammal species, and a rich variety of invertebrates.

The list of species requiring special habitat protection, according to Resolution 6 of the Standing Committee of the Bern Convention, includes such species as the Russian muskrat (*Desmana moschata*), the European mink (*Mustela lutreola*), and the otter (*Lutra lutra*). The Nature Reserve also has the corncrake, the white-tailed eagle (*Haliaeetus albicilla*), the spotted eagle (*Aquila clanga*), the booted eagle (*Hieraaetus pennatus*) and other rare bird species, and a large population of the pond turtle (*Emys orbicularis*).

The flora of the Nature Reserve includes nine species listed in the Russian Red Book and 76 in the Voronezh Red Book, such as the Schrenk tulip (*Tulipa schrenkii*), the meadow pasqueflower (*Pulsatilla pratensis*), the iris (*Iris pumila*), the leafless iris (*Iris aphlla*), and a variety of mat-grasses (*Stipa pennata*, *S. pulcherina*, *S. dasyphylla*).¹⁵

Non-ferrous Metal Ore Deposits in the Khopyor area

In the 1960s, five deposits of platinoid, copper and nickel ores were discovered in the Voronezh Region: Nizhnemamonskoye, Podkolodnovskoye, Yubileynoye, Yelanskoye and Yolkinskoye.¹⁶

In 1977, the Soviet Government decided against developing the deposits due to the agricultural profile of the area, its complex environment and the proximity of nature conservation sites. Besides, the development of nickel in a densely populated area entails serious health risks.¹⁷

The decision to start mining nickel on the Khopyor is made

In 2010, the Voronezh Agency for Development and Innovation launched a call for tenders for conducting the '*Expert Evaluation of the Environmentally Safe Technology of Extraction and Beneficiation of Non-Ferrous Metals on the Territory of the Voronezh Region Preserving Soil Fertility*' project. The text of the expert evaluation is at time of writing still concealed from the public. The fact that the winner of the contract, Vladimir Dementiev, Director of OAO Irgiredmet, has been in long-standing cooperation with the UGMK, may signify a corruption link between the Voronezh Agency for Development and Innovation and this company.¹⁸ The opinion of local residents was not asked, as there was no broad public discussion of the issue. On the contrary, the decision by then Prime Minister Vladimir Putin was made just before the ten-day long New Year and Christmas holiday.¹⁹ This indicates the possibility that the authorities were short of convincing arguments in favour of the project and feared a negative reaction of the public.

In December 2011, the then Prime Minister Putin signed the decision to launch a call for tenders to exploit the Yelanskoye and Yolkinskoye copper and nickel ore deposits in the Novokhopyorsk District of the Voronezh Region.²⁰

On May 22, 2012, the tender commission of the Federal Subsoil Resources Management Agency (*Rosnedra*) selected the most successful bidder, which belongs to OAO Ural Mining and Metallurgic Company (Uralskaya Gorno-Metallurgicheskaya Kompania, UGMK). On July 26, 2012, OOO Mednogorsk Copper and Sulphur Combine was licensed to conduct a geological study, to explore and extract copper and nickel ore at the Yelanskoye and Yolkinskoye Subsoil Plots of Federal Importance.²¹

The decision to allow nickel ore mining was made without evaluation of the strategic necessity to extract non-ferrous metals in an agrarian area in close proximity to the Khopyor State Nature Reserve.

Public protests are ignored or suppressed

As soon as the residents of the South-East Voronezh Region, the neighbouring regions, and the city of Voronezh found out about the call for tenders to exploit the deposits, they started to form public groups and groups in social networks started speaking out against the tender. In March 2012, the first protests in the form of one-person pickets took place. By May 2012, the number of people who joined the 'anti-nickel' group at Odnoklassniki.ru (the most popular social network in Russia) had come close to 50 000.

In June, a rally was held in the town of Borisoglebsk (with a population of 65 000), which is situated 40-50 km from the deposits. The rally was attended by over 15 000 people.²²

Meanwhile, the regional authorities, the key target of public criticism, ignored the protests. The Russian President's Administration responded to one of the protest letters, stating that the issue was to be resolved by the local authorities. This was later belied by the local authorities themselves, as they refused to hold both a local and a regional referendum, maintaining that the mining for non-ferrous metal ores in the Voronezh Region was beyond the scope of jurisdiction of the district and region administrations. Courts of all levels, including the Constitutional Court, later confirmed the legality of this refusal.

It was only after the tenth rally, in June 2012, attended by approximately 2 000 local residents, when the Voronezh Governor Alexei Gordeyev finally responded. Several members of the Public Chamber of the Russian Federation were present at the rally, and held a round table discussion with protesters on the same day.

The Governor said that 'there will be no mining without public support'²³, and accused the bid winner's competitors of organizing the protests, insisting that the local residents were manipulated into participating in the protest activities.

Informational suppression

Shifting the blame to certain subversives is not an unusual manipulation technique utilized by the authorities. Local mass media controlled by the Department of Property Relations of the Voronezh Region²⁴ started to spread the allegation that a group of outsiders was trying to destabilize the situation. The Head of this Department, Maxim Uvaïdov, in his capacity as a member of the *Rosnedra* Commission (Federal Subsoil Resources Management Agency), personally signed the protocol of the Ural Mining and Metallurgic Company (UGMK), winning the contract. Mr Uvaïdov has been working for Governor Gordeyev from the time they both were employed at the Ministry of Agriculture.

In addition, Volgograd MP and businessman Oleg Pakholkov, sponsored by the UGMK, began to publish a weekly newspaper *Khozyaistvo Chernozhyemya* with a circulation of about 60 000. Five or six pages in this newspaper were devoted to the issue of nickel mining on the Khopyor.

The public protests were presented as a dirty competitive technique, an anti-state provocation, or a personal PR campaign of the protest activists. Other articles were about the positive experience of the

Ural Mining and Metallurgic Company, the benefit of the project for the regional economy and its environmental safety.²⁵

It must be noted that for many of the local residents, most of whom opposed the project, this was the first time they saw how biased the media could be. At the same time, they found out that, apart from internet communities, they had no communication platforms that expressed their position in an unbiased way. However, when federal media journalists invited by the protesters described the situation, they did it in a truthful manner²⁶. Seeing that, the UGMK paid the same media to communicate its own position afterwards²⁷.

Using substitute citizens

Media propaganda is not the only means of manipulating the public opinion in Russia. When the authorities are not happy with the actual public opinion, they use substitute public activists.

For instance, in Voronezh, they set up a “Public Council for the Control over Complex Development of Nickel Deposits in the Voronezh Region”.²⁸ The title of the council was enough to cause indignation of local residents advocating for a complete ban on the extraction of non-ferrous metals in their region. Both protesters and pro-development scientists were invited to join the Council. This body was just a platform for public discourse and had no actual influence on the situation. There was a row at each meeting of the council; however, every meeting was followed by mass media publications enumerating the arguments in favour of the project expressed by the scientists. Later, several members of the ‘public groups’, created by order of UGMK, joined the council. One of them was head of the guard service company employed at the Yelanskoye and Yolkinskoye deposits but he positioned himself as a representative of the local Cossack community²⁹.

In 2012, the Institute of Sociology of the Russian Academy of Science conducted a survey in the Novokhoporsky District, which showed that 98% of the local population considered the project to be harmful.³⁰ However, the council presented the results of another survey with opposite results, showing that approximately 80% of residents were in favour of the project. This second survey was signed by specialists from the same Institute of Sociology of the Russian Academy of Science. Interestingly, the commissioner of the survey (the Voronezh Agency for Development and Innovation, the main lobbyist of the nickel project) paid only for the processing of the survey questionnaires, while the questionnaires themselves had been filled in by administrative officers.³¹

On the local level, the authorities use similar substitution methods: the ‘public council’ of the Novokhoporsky District repeated on several occasions that they found it necessary to develop the deposits. This council consists of only easily manipulated public sector workers, while civic activists or other members of the public are not admitted to the council meetings.

At present, the Russian authorities are actively encouraging local residents to form Territorial Self-Governance Organizations (TSO). Having no real power, such organizations can only participate in the discussion of local budgets, suggest territorial improvements, etc. Besides, TSOs usually consist of pro-government public sector workers, whose position directly depends on the local authorities.

Local farmers experience continuous pressure. For those who protest, the local authorities create obstacles for continuing their business.

One of the farmers opposing the nickel development project has experienced several raider attacks over a few years, and has lost several lawsuits being unable to prove the legality of his land lease and even the ownership of his own harvest.

Another type of pressure put upon the local farmers takes the form of cattle-breeding agro-industrial holdings, which are being set up all around the region. Most such enterprises belong to corporations that keep their assets in off-shore zones. For instance, *Agroeko* (which the local mass media associate

with the family of the Voronezh Governor Alexey Gordeyev), belongs to Eco Agribusiness Holdings Ltd. based in Cyprus.³²

Economic model based on export of resources and non-investment vs sustainable development

Estimation of damages to the area, local businesses and residents

The situation around the Khopyor nickel mining project is a perfect example of how the resource-based economy functions in Russia, where local residents seem to be seen as an economic liability rather than as local stakeholders or supporters.

Private companies, like the Ural Mining and Metallurgic Company (which under the jurisdiction of Cyprus and the British Virgin Islands); receive the profits of the development of the Yelanskoye and Yolkinskoye deposits, while the state and the population have to bear the consequences of the development. As an indication, most Russian nickel is exported, leaving only 3-5% for domestic use.³³

Neither the state nor the license-holder has conducted a sober estimation of the damages incurred on the environment or the infringement of the local residents' interests. The operations, which are supposed to last 35-40 years, may destroy the prospects of thousand-year-long sustainable development based on renewable natural resources: water and the invaluable black earth.

No one has studied the damages caused by the pollution of water reserves in the region that may be caused by the development of the Yelanskoye and Yolkinskoye deposits. Klara Pitieva, Doctor of Geology and Mineralogy and Professor of Hydrogeology at Moscow State University, has calculated that the radius of the cone of depression around the Yelanskoye and Yolkinskoye deposits may reach 26 km in ten years' time³⁴. As a result, the Khopyor will become shallow and its alluvial lakes, the basis of wildlife in the Khopyor State Nature Reserve, will disappear.

The technological cycle of any ore dressing plant requires large amounts of water. On average, the froth floatation and the production cycle of the planned amount of ore will take about a billion tons of water. Although the license requires a closed water circulation loop, the water used in most modern plants consists only of up to 70% out of recycled water. These plants thus need a constant inflow of fresh water and will inevitably dispose of residual water into the beds of the Khopyor tributaries.

Wet waste is to be stored on the surface, which may contaminate both soil and water with poisonous substances, such as arsenic and stibium. No modern methods of tailings disposal can completely prevent side and bottom infiltration.

The lower bounded aquifers with mineralization of up to 100 g per litre threaten both the soil and fresh ground and surface water. Such salt brines contain heavy and radioactive metals in enormous doses, far exceeding the maximum allowed concentration.

On the territory of the Yolkinskoye deposit, near the exploration wells drilled back in the 1990s, the background radiation is as high as 120 mCr/h, and they are still leaking salt brine.³⁵ The local controlling agencies conceal this information from the public.

Mines and the prospective ore dressing plant pose a direct threat to the Khopyor State Nature Reserve, which is situated 15 km from the site intended for the development.

In addition, there is no answer to the question as to who will be responsible for the accumulated environmental and social damages after the expiration of the license (in 25 years' time).

The enormous damage to the regional agriculture has not been estimated either.

To develop the copper and nickel deposit in the Voronezh Region, it will be necessary to agricultural use approximately 700 hectares of black earth soil area containing 385,000 tons of invaluable humus. A hectare of one metre-thick layer of leached black earth contains 550,000 tons of humus. One ton of

humus costs from 7,000 to 11,000 rubles (ca. 120 euro), so 385,000 tons of bio humus will cost approximately 2.7 to 4 billion rubles (ca. 474-702 billion euro).³⁶

The outflow and pollution of both surface and underground water will also harm the farming businesses in the region. Farms situated far beyond the 700 hectares of the allotted land plot will be directly affected.

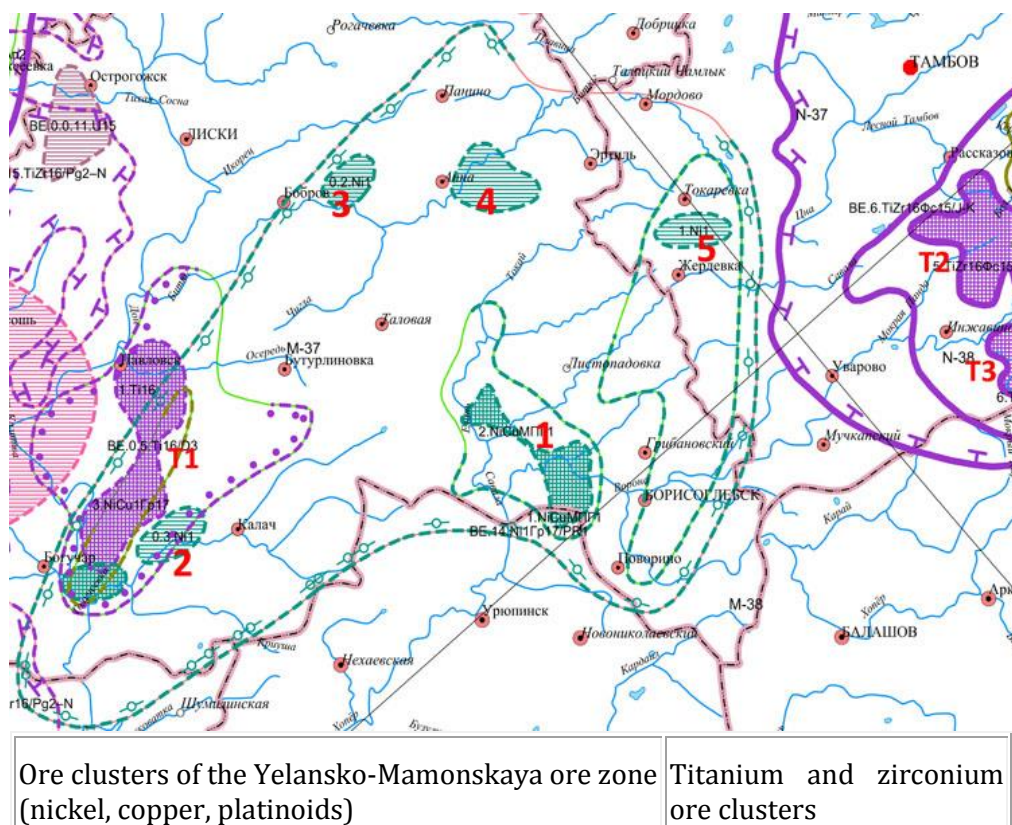
At present, neither the licensing body nor the developers have submitted detailed calculations or have taken into account the loss of profit incurred if the valuable soil is not used for agriculture. The sum of the loss is calculated for a period of 100 years and, according to a preliminary calculation, will make about 1 trillion rubles (ca. 17 billion euro) just for the area intended for the mines and dumping sites. If this sum is included in the cost of land allotment, the development of the deposit will prove sub economic.

The UGMK expects to extract about 130 million tons of ore. Given the projected capacity of the plant of three to four million tons a year, the ore reserve will last for 30 plus years. The company calculated their profit of about 10 billion dollars based on the nickel price of 18 euro. However, in 2014 and 2015, the price has been fluctuating between 11 and 13 euro, and experts see no reasons for it to rise.

The reduction of costs is often achieved by cutting back environment protection measures. The Russian Code of Administrative Violations encourages this, as the fines imposed for the violation of the environmental legislation are far lower than the actual costs of environment protection measures. In this situation, environmental dumping may be expected, and the risks will inevitably be passed on to the state.³⁷

The scope of projected works: the redistribution of the Central Black Earth District

The scope of possible further non-ferrous ore development in the Black Earth District is concealed from the public. To prove this, one can look at the map of the mineragenetic zone division of the south-east of the Voronezh Region and the adjacent territories:³⁸



1 - Yelansko-Uvarovsky	T1 – Pavlovsko-Mamonovsky
2 –Shiryaevsky	T2 – Tsentral’ny
3 –Astakhovsky	T3 - Kirsanovsky
4 –Anninsky	
5 – Rymarevsky	

The five ore clusters of the Yelansko-Mamonskaya ore zone containing nickel, copper, platinoids, and three titanium and zirconium ore clusters cover the whole territory of the south-east of the Voronezh Region and the north-west of the Tambov Region. The two licensed sites, Yelanskoye and Yolkinskoye, are the beginning of the Yelansko-Uvarovsky ore cluster, which extends towards the Khopyor Nature Reserve, passes numerous communities, goes under the Khopyor and ends near the town of Borisoglebsk. This information is also concealed.

Thus, the development of the Yelanskoye and Yolkinskoye copper and nickel deposits will be the first step towards a total change in the economy and lifestyle of an enormous region with invaluable renewable natural resources, which may be destroyed for the sake of exporting metals and gaining profit by the company whose beneficiaries are BVI off-shores.

The ‘Power Vertical’ and its international partners

As the UGMK owners and the country leaders are in alliance, they have rigid mutual commitments.

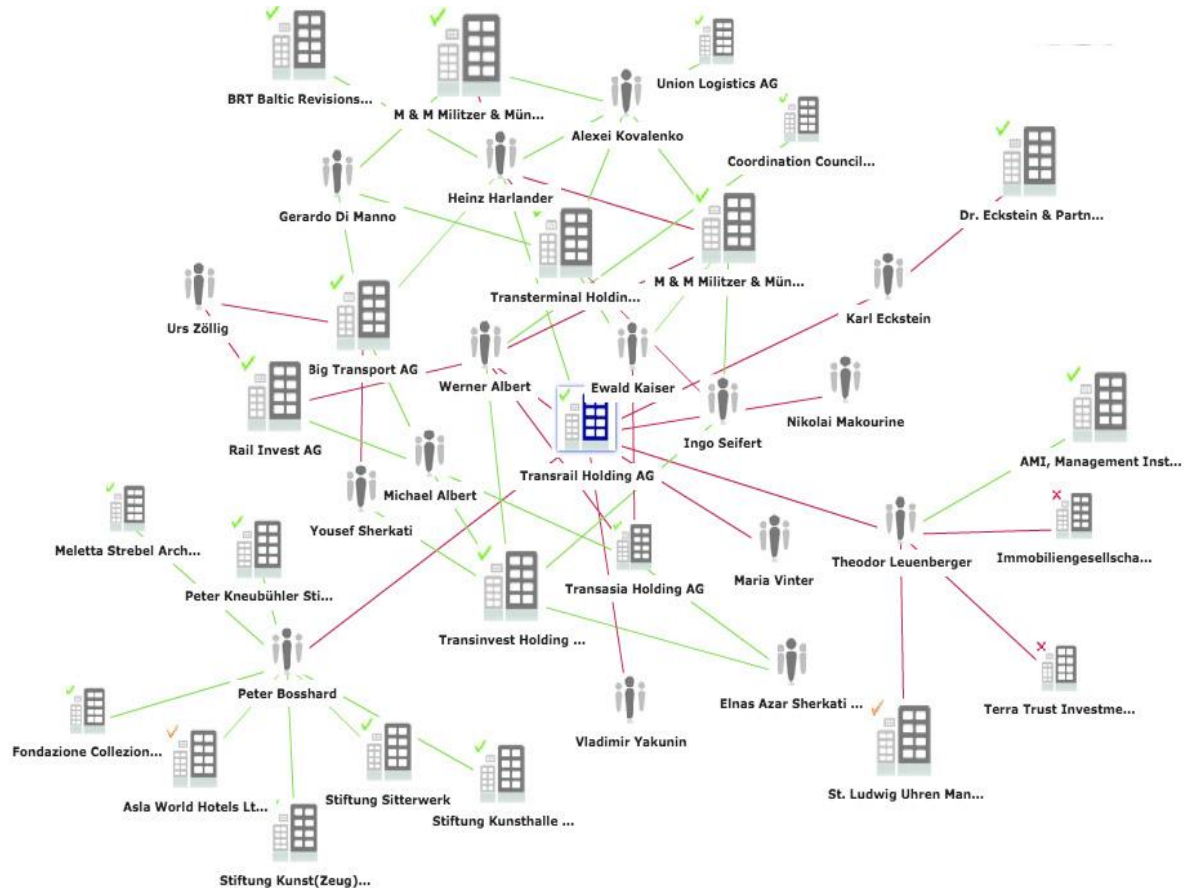
The scope of the UGMK’s involvement with the Russian and international business reveals the powerful connection of its owners, Iskander Makhmudov and Andrei Bokaryov, with the ‘top Kremlin businessmen’. To the latter belong, first and foremost, Gennady Timchenko and Vladimir Yakunin. Mr Makhmudov and Mr Timchenko co-own the *Transoil* company. Mr Makhmudov and Mr Bokaryov have a broad field of relations with Mr Yakunin. Their *Transmashholding* delivers railway cars for Mr Yakunin’s Russian Railways. Another link is the historical alliance of the railways with the coal producing *Kuzbassrazrezugol*, part of the UGMK.

Until 2002, *Kuzbassrazrezugol* (KRU) was directly linked with Mikhail Chyorny, who is internationally wanted in connection with money laundering and organization of a criminal group at the time of writing.³⁹

Back then, 27.53% of the UGMK stock belonged to Swiss companies connected with the Russian Ministry of Railways (RMR, currently known as *OAO Russian Railways (Rossiyskiye Zheleznnye Dorogi)*). At the time, KRU was closely affiliated with the RMR: some of its board members also served on the boards of those Swiss companies. For instance, *Krutrade AG*⁴⁰ (headed by Mr Bokaryov until 2000⁴¹), has a co-director (Tony Stadler⁴²), who is connected with several firms leading to the top managers of the RMR and, later, of the Russian Railways). One of Tony Stadler’s constant co-directors, Michael Albert⁴³, is Head of *Transrail AG*⁴⁴. The Italian police believe that this company was instrumental in the illegal export of five to seven billion dollars⁴⁵. Werner Albert⁴⁶ co-headed *Transrail Holding AG*⁴⁷ together with Nikolai Makurin, who merged this company with the *Soyuzvneshttrans Group*. Vladimir Yakunin, the current CEO of the Russian Railways, worked for *Transrail Holding AG* with Nikolai Makurin from 2002 to 2004. At present, Mr Yakunin and Werner Albert⁴⁸ co-head the Coordination Council of the Transsiberian Transport⁴⁹.

See figure 2:

The links between individuals named in criminal investigations in Europe and the current CEO of Russia's major state company:



Werner Albert and Nikolai Makurine are next to the Russian Railways CEO Vladimir Yakunin. The diagram was generated by <http://www.moneyhouse.ch>.

A direct link with the criminal world is revealed if we take a close look at the connections of the former *Kuzbassrazrezugol* owners. For instance, half of *ZAO Riostail*, which had 17% of the KRU stock, belonged to *ZAO Baltstroy*, whose President and owner is Anton Gennadievich Petrov, son of Gennady Petrov. The latter is a businessman, who has been linked to the Malyshev organized crime group.⁵⁰ He is accused of criminal offenses in Spain, was formerly connected with the KGB and is acquainted with the Russian leaders. Moreover, according to media reports, it is through *Riostail* and *Kuzbasstrans* that Iskander Makhmudov and Andrey Bokaryov control 90% of the KRU⁵¹.

Gennady Petrov was connected with the railway through his acquaintance with the then Minister of Railways Nikolai Aksyonenko. Gennady Petrov's *Baltic Construction Company (Baltiiskaya Stroitel'naya Kompaniya)* was involved in the construction of railway facilities and built the headquarters of the Russian Railways in Moscow.

Rustam Aksyonenko, the son of the former Minister of Railways, had a controlling stake at the Swiss company *Transrail Holding AG*, which founded *Rail Finance AG*⁵² and *Rail Invest*⁵³. The latter companies owned 27.53% of *Kuzbassrazrezugol* until 2006, when the whole stock package of the company passed to the UGMK. It should be noted that Rail Invest had acquired the first package of 12.35% KRU shares as early as in 1998⁵⁴.

In Estonia, Rustam Aksyonenko was a co-owner of *Unitrans*, which enjoyed a great discount offered by the RMR. *Unitrans* was helmed by Maxim Luksutov⁵⁵. He and Sergey Glinka are believed to be Rustam Aksyonenko's "closest business partners in Estonia"⁵⁶.

It may thus be assumed that Iskander Makhmudov and Andrey Bokaryov's coalition with Maksim Liksutov and Sergey Glinka came about with the assistance of the Aksyonenko family. At an early stage of its operations, the KRU received investments gained through fraudulent schemes with forwarding services for the RMR rendered by firms related with the Aksyonenko family. Another source of investment was the construction contracts they won with the help of the Minister of Railways. In 2001, a criminal case was filed against Nikolai Aksyonenko, but it was not investigated until after his death. At present, his son is a citizen of Estonia and owns several firms in Switzerland and France.

In 2009, *OAD UK Kuzbassrazrezugol* (KRU) had a net profit of 7.7 billion rubles (ca. 135 million euro). All this money remains abroad, with *Krutrade AG*, which was founded in 1998. According to media reports, *Krutrade* is registered in Austria, but performs all its operations through Cyprus⁵⁷. At the same time, *Krutrade AG* was also registered in Switzerland and was headed by Andrey Bokaryov personally. In 2011-2012, *Krutrade* handed over its coal trade operations to *Carbo One Limited* registered in Cyprus.

From 2002 to 2006, *Carbo One Limited* (formerly *Alinos Enterprises Limited*) was headed by Marin Marinov. The Spanish police investigating the money laundering through *Vera Metallurgica* (the company controlled by the UGMK) believe that Iskander Makhmudov is related with an international crime organization through Marin Marinov, who was hired to manage money laundering companies. The *Vera Metallurgica* money laundering case was instituted in 2005 after Gennady Petrov was arrested in Spain in the course of a police operation codenamed *Avispa*. During his arrest, the police found documents containing information on those criminal operations.⁵⁸

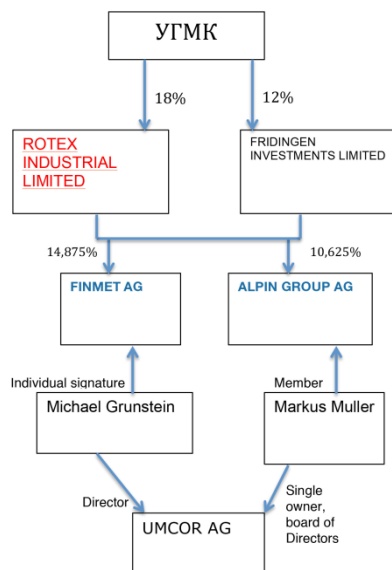
In addition, early on, some parts of both the UGMK and *Kuzbassrazrezugol* belonged to British and Irish companies aligned with an international criminal network, which has laundered billions of euros.

Six Irish companies that owned variously sized stakes at the UGMK between 1999 and 2010 and associated with the UGMK subsidiaries, belong to a network leading to an international criminal money laundering and financial fraud system.

All those companies were organized with the assistance of or directly by Philip Burwell,⁵⁹ who is believed to be the creator of the money laundering network embracing dozens of countries.⁶⁰

This is the well-known network consisting of "front" directors (Erik Vanagels, Stan Gorin, Yury Vitman, and others) created with the assistance of the Latvian Parex Bank. This network was allegedly used to launder the profits from drug and weapon trafficking operations. In addition, it has reportedly laundered a part of the money earned through the scheme investigated by Sergey Magnitsky, who was later killed in a Russian prison, and the corruption money of the former Ukrainian President Viktor Yanukovich.⁶¹

Later on, the assets that had passed through those criminal firms found themselves in European metallurgic companies, a stake in which was purchased by the Swiss *Umcors AG*.⁶²



The diagram shows the transition of the UGMK shares from Rotex Industrial Limited, which is affiliated with an international network of criminal firms, to Swiss companies aligned with large European companies dealing with non-ferrous metals.

Umcors AG owns *Kovohuty, A.S.*,⁶³ a copper-producing plant in Slovakia. It also owns the French *Gindre Group*⁶⁴ and a large Austrian metallurgic plant *Montanwerke Brixlegg Aktiengesellschaft*.

It can also be assumed that Umcors is affiliated with *Glencore International AG*. For instance, in 2005, the UGMK gave Glencore AG \$400 million worth security for Umcors AG.⁶⁵ At present, Glencore is the largest trader in Russian oil, and the key partner of Igor Sechin.

The Khopyor nickel mining project may be associated with Glencore. The UGMK management has admitted in its media communication that the project is financed by and is within the direct interest zone of Glencore International AG.

This is not the only link between the Russian corrupt officials and international businesses. At present, there are several scandals around Iskander Makhmudov and Andrey Bokaryov's *Transmashholding (TMH)* which received budget funds for servicing Moscow underground carriages. In 2014, this company won two contracts in the call for tenders launched by the Moscow Department of Transportation. This Department is headed by Maksim Liksutov, the former TMH owner and the partner of Mr Bokaryov and Mr Makhmudov. The total amount of both contracts is 274 billion rubles (€5 billion, at the then exchange rate)⁶⁶. The co-owner of the Dutch firm *The Breakers Investments B.V.* that owns 100% of TMH shares is the French company *Alstom*, which partly belongs to Martin Bouyges.

Martin Bouyges has been a business partner of Iskander Makhmudov in several previous projects. Together, for example, they are building the Hyatt Hotel in Yekaterinburg.⁶⁷ In addition, it was on Martin Bouyges' wharfs where the Mistral warships were built at the commission of the Russian Federation. Martin Bouyges is on speaking terms with France's top officials. For example, he was the best man at Nicolas Sarkozy's wedding, when the latter was the President of France.

Iskander Makhmudov's criminal background has twice come to the attention of the law enforcement bodies in Europe. The first time his name was mentioned was at the High Court in London, during the hearings on the case of Mikhail Chyorny (a former Russian and Uzbek criminal lord) vs the Russian tycoon Oleg Deripaska. In the course of the hearings, it was revealed that Iskander Makhmudov had been Mr Chyorny's junior partner since 1992.⁶⁸

The second time Iskander Makhmudov's name came up was again in relation with Mikhail Chyorny and Oleg Deripaska, but this time it was in Spain, where *Vera Metallurgica* he co-owned was accused of laundering criminal money.⁶⁹ In 2011, this case was taken over by the Russian Prosecutor General's office. Since then, there has been no public information on the case.

Neither Europe nor the US has imposed any sanctions against the UGMK owners despite their obvious links with organized crime.

This powerful corruption network appears to make sure all levels of authorities make decisions in favour of Mr Makhmudov and Mr Bokaryov's companies, whose main aim is to export natural resources and extract wealth from Russia.

“The law does not work”: residents are driven into physical resistance

Given the massive clampdown on the civic activity, when the media describe the protests as ‘few in numbers’ and ‘pre-paid’⁷⁰, and seeing the poor execution of laws, local residents have to look for other ways of expressing their opinion.

The protesters open groups in social networks. The largest group at Odnoklassniki.ru listing over 60,000 participants publishes documents disclosing the illegal nature of Yelanskoye and Yolkinskoye deposit development. In spite of that, the works at the deposits continue. The public requests to hold a referendum have been turned down. The numerous meetings and panel discussions at the State Duma and the Public Chamber have yielded no results. Almost a hundred of street protest actions and rallies, some of which were international, have not helped to stop the project, either. Even two direct meetings with President Putin did not lead to the anticipated outcome, although the President was given the results of the scientific evaluation and the recommendation of the Public Chamber to reconsider the decision to start the development. Meanwhile, the local media continue to stir up the conflict by pressurizing and accusing the activists. Unable to reach the authorities in any other way, the public was driven to the option to physically resist the developments. On June 22, 2013, about 4,000 protesters charged and removed the illegally put fence around the Yelanskoye deposit and destroyed the drilling equipment, which was working in the fields under a farming agreement. Significantly, the protesters did not try to hurt the guards, who had beaten up the leader of the local Cossack community the month before. They also asked the workers developing the deposit to leave so that nobody would come to any harm.

This is another significant detail: 30 local police officers present at the rally could not handle the 4,000 protesters. Special police squads made it to the location only six hours later. In Russian provinces, it usually takes an average of 6-10 hours for special police squads to reach protest spots.

It should be pointed out that only this kind of protest had an impact on the authorities. There were no works on the deposits during the following six months.

The Khopyor nickel mining project is a way for the UGMK to prevent public unrest in other regions: in Verkhnyaya Pyshma (the Sverdlovsk Region) and Mednogorsk (the Orenburg Region), where its major plants are located. One of their arguments in favour of nickel mining on the Khopyor is the depletion of its resources elsewhere and the prospect of closing those towns' major industries. In relation to this, the public in the Voronezh Region needs to show that their protests are broader and more radical than those of the residents of the Ural towns about to lose their jobs. The fact that the local authorities acted indecisively and failed to suppress the protest of June 22, 2013 shows that aggressive mass protests are an effective means of opposition to unpopular governmental decisions.

Criminal cases against public activists

In November 2013, after the resuming of the drilling works, the UGMK initiated a criminal case filed against two of the protesters – Mikhail Bezmensky and Igor Zhitenev. The latter were accused of extortion. The UGMK agents faked an act of extortion and wrote a statement to Denis Sugrobov, Head of the State Main Directorate for Economic Security and Corruption Prevention of the Russian Ministry of Internal Affairs. The two activists were arrested and are still in custody at time of writing. The police also tried to arrest the author of this report on charges of organizing a criminal group. However, this attempt was unsuccessful.

There are numerous facts that disclose the corrupt element in this case. The investigating group was headed by Oleg Silchenko, one of the officials cited in the 'Magnitsky list'. The documents on the investigation actions in the case against the protesters were signed by Boris Kolesnikov, Mr Sugrobov's Deputy. The records of the questioning of Boris Yamov, (a UGMK top manager and the man who filed the statement) contain false information of their involvement in extorting money from the UGMK. Mr Kolesnikov was in charge of the investigation actions. Later Denis Sugrobov was discharged from the police for a similar extortion provocation committed by his subordinates, including Mr Kolesnikov. Both policemen were arrested, upon which Mr Kolesnikov committed suicide on June 16, 2014.⁷¹

Nevertheless, the investigation of this case has been going on for over a year, while the two protesters are still in prison, where they are severely pressured to give evidence against others, including the author of this report.

In the summer of 2014, Znak.com published the letter of Mikhail Bezmensky, a resident of the Voronezh Region, written in May 2014 in a Moscow pre-trial detention centre.⁷²

Two residents of the Voronezh Region have been in prison for about a year and a half, where they are severely pressured to give certain evidence. Mr Bezmensky writes that the UGMK top managers had been working in close cooperation with the Corruption Prevention Agency in order to bring down the massive protests in the Khopyor area. He also points out the connections of top police officers and the 'Khopyor case' investigators with the UCCM

The court sessions on this case are scheduled for July 2015.

Conclusions and recommendations

The project of nickel mining on the Khopyor river is not just a showcase of the public suppression system, but of the whole scope of corruption and criminal links between big businesses, the authorities and the international criminal groups.

The resource-based economy rests on corruption and disinvestment. To prevent it, it is necessary to reveal criminal schemes in regions and in the whole country, trace those schemes and fight with the individuals gaining from the financial and resource traffic. As a rule, corruption inhibits the law in Russia, and can be fought only through opposite corruption. In the latter case, there is danger of simply helping competitors to take over the region. However, on the international level, legal routes and media work may be more effective, although they would take more than one year.

Outside Russia, it is necessary to cooperate with existing foundations and sustainable development movements, with journalists and politicians, and with the financial establishments financing resource-related projects in Russia, as the 'Equator Principles' commit them to encourage the transparency and environmental safety of the businesses they support.

The sanctions against Russian businessmen and officials should be extended onto those who use dubious financial schemes. It is also necessary to disclose and prevent the participation of European business in Russian corruption projects.

Lack of Transparency and Indications of Transborder Corruption in Investment Projects in Russia

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Contagiousness and transborder corruption

Globalization, the global process integrating national and regional markets of products and services, is a major developmental trend in most countries of the world. Globalization has become a prerequisite and a key factor stimulating the development of the world economy. For national economies, globalization is an indispensable (though insufficient) condition for their successful development and economic growth. It also helps them to deal with various social, economic and political issues.

However, globalization, like many other modern global processes, has its negative consequences for national economies, states and societies. One of the worst and most dangerous consequences of globalization is transborder corruption. For the meaning of corruption, this report follows the definition provided by the Council of Europe Convention on Civil Liability of November 4, 1991. This convention defines corruption as "requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behaviour required of the recipient of the bribe, the undue advantage or the prospect thereof".

Transborder corruption may be defined as corruption schemes that function and develop regardless of national borders. In the present-day world, the intertwining and integration of national economies leads to contagion of nature of corruption across borders. More members of the public and civil servants get accustomed to corruption as a means of achieving their goals, as they see others do the same and acquire hands-on experience in corruption schemes⁷³. As a result, an increasing number of citizens and public officials become involved in corruption, while the corruption level grows – increasing its danger to society.

The effect of this contagiousness of corruption is obvious when looking at countries with close ties within one region.⁷⁴ As a rule, corruption levels in such countries are the same or not very different from each other. There are exceptions from this pattern, when one country in the region is significantly more corruption-free than the others, like Singapore in South-East Asia; however, such exceptions are relatively rare.

Research shows that corruption spreads from region to region by three main reasons or incentives⁷⁵. Firstly, following globalization and growing economic activity along with the subsequent integration of national economies, the overall number of corruption schemes increases

due to increased economic activity and contacts. Secondly, trans-border operations of organized crime groups, which yield good profits for corrupt bargains help spread corruption by increasing the attractiveness and profitability of engaging in such schemes. The third reason is the fact that when citizens of one country see residents of neighbouring countries use corruption schemes and the profits they generate from it. Due to these citizens develop the idea that they too can or should engage in such activities.

In the context of globalization, joint commercial or public projects are carried out by teams consisting of representatives of different countries. This often brings about the effect of corruption contagiousness, when representatives of one country start using their habitual corruption practices in another country.

In the two cases described below, Russian civic activists disclose situations where lack of transparency and failure to avoid conflict of interest situations lead to suspicions of possible corruption by representatives of Western companies and entities. It is possible that in their own countries these persons would stay clear of corrupt practices, but behave differently in Russia and do not help the country to reduce its level of corruption.

States combat transborder corruption

As a rule, modern countries try to mitigate the negative consequences of globalization, including those present in their transborder regions. In doing so, they focus their attention mostly on fighting *organized transborder crime*.

Organized transborder crime implies the activities of transborder criminal groups. Organized transborder crime is usually continuous, uses enormous resources, including extensive financial means. These criminal organizations can be disguised as legal business, takes various forms, and is practically impenetrable to public control. It protects itself from state control by corrupt practices, such as bribes to civil servants. As a rule, transborder criminal groups are aligned with similar groups both in their home country and in neighbouring countries, which helps them to easily evade the regulatory measures imposed by the executive authorities, police and the other law enforcement agencies of those countries.

The operations of transborder criminal groups are often well organized and highly profitable, as they are not constrained by adherence to laws or by social commitments. As a rule, transborder criminal groups have their own security structures, which can often successfully oppose the police. Transborder organized crime involves in its operations many residents of transborder regions, attracting them by the opportunity to receive higher incomes than those that can be earned in legal employment. The most profitable operations are, as a rule, trafficking drugs or weapons and providing assistance to illegal migration and to criminal financial operations.

Almost all modern countries more or less actively fight transborder crime groups, fearing that such criminal structures can obstruct the public authority in those countries. The fight with organized transborder crime is complicated by the fact that criminal groups are better equipped and have more extensive resources than the border police of many countries, including the USA and Russia.

Thus, countries concentrate most efforts of their border police, law-enforcement forces, courts and executive agencies on fighting organized criminal groups. At the same time, they pay far less attention to the operations of legal private businesses and their relations with executive agencies, courts, law enforcement authorities, etc. However, it is often the case that, in the context of severe competition, even legal private businesses prefer to evade the law and use corruption schemes to achieve a competitive advantage. Nation states fight such corruption cases with greater or lesser success, as corruption obstructs fair competition in their markets, causes prices to grow, increases their state budget expenses and misleads public officials. All these effects contribute to a low efficiency of state administration and to economic and political instability.

In order to successfully fight transborder corruption, nation states must align their efforts, anti-corruption strategies and tactics. If they fail to do so, or do it ineffectively, corruptionists may use the discrepancies in the legislation of different countries to their advantage. In addition, the power of national law enforcement agencies will be limited to the jurisdictions of their countries.

In European countries, this coordination is provided through a system of mutual agreements, in particular, the agreements on mutual assistance in the sphere of criminal and civil justice, cooperation of investigative and judicial agencies, mutual extradition of offenders and the transfer of sentenced persons to their home countries. Another means of coordination is through developing and ratifying Conventions of the UN, the Council of Europe and OECD. These are, in particular, the UN Convention against Transnational Organized Crime of November 15, 2000, the UN Convention against Corruption of October 31, 2003, the Criminal Law Convention on Corruption of the Council of Europe of January 27, 1999 and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of November 21, 1997. All these Conventions have been ratified by the Russian Federation.

The OECD Convention of November 21, 1997 is directly relevant to combating transborder corruption. According to Part 1 of Article 1 of this Convention, each Party to the Convention 'shall take such measures as may be necessary to establish that it is a criminal offence under its law for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business'. Thus, according to this Convention, a criminal offence is deemed as committed not only if the advantage is given but even if it is offered or promised. Such provisions are included in the Convention because it is impossible to legally prove the involvement of an individual in an act of corruption, as such acts are committed discreetly and perpetrators usually do not make this information public for the sake of their own security. In addition, according to Article 9 of this Convention, the national legislation of each Party should include the provision on rendering mutual legal assistance 'for the purpose of criminal investigations and proceedings brought by a Party concerning offences within the scope of this Convention and for non-criminal proceedings within the scope of this Convention brought by a Party against a legal person. The requested Party shall inform the requesting Party, without delay, of any additional information or documents needed to support the request for assistance and, where requested, of the status and outcome of the request for assistance'.

In spite of these and other measures, countries do not always succeed in considerably reducing transborder corruption. Firstly, it is because state authorities always have to act within the boundaries of the law, whereas criminals are not constrained in this way. In addition, criminal groups can react faster and more flexibly, and they can oppose or even intercept the actions of the law enforcement agencies. Secondly, legal private businesses involved in transborder corruption almost always act so discreetly that it is extremely difficult to legally obtain evidence of such offending acts or crimes. Another factor impeding effective opposition to transborder corruption is the fact that, limited by the scope of their jurisdictions and competences, national governments and inter-governmental organizations find it increasingly hard to control the growing amounts of goods, services and money transferred between countries in the context of economic globalization. In addition, state authorities find it difficult to integrate the materials of court and law enforcement practices and statistical data for in-depth study and analysis of transborder corruption, as they use different methodologies of collecting such materials. However, there are clear differences in the efforts of states to enforce the OECD convention. The 2014 overview of implementation of the convention states that both Russia and the majority of EU member states exhibit no, little or limited enforcement efforts.⁷⁶

The network structure of Russian corruption

Research has revealed that corruption in present-day Russia has a network structure⁷⁷. This is manifested in the way corrupt officials communicate with each other, as well as in the way they make decisions and ensure the implementation of those decisions. The communication between members of such networks almost always has an informal, person-to-person character, with temporary, short-term and constantly changing mutual commitments based on very specific rules of morality, which are different from conventional ethics. This manner of interaction unites corrupt officials and businessmen in the so-called corruption networks⁷⁸, i.e. networks consisting of informal and illegal links and interdependences between civil servants, business executives, and even some public figures, who are often used to build and maintain the reputation of corrupt officials. Corrupt officials and businessmen use their informal relationships for their personal gain and in order to obtain a competitive advantage for their businesses, to win state and municipal contracts, etc.

Informal relationships between state officials and business executives exist in many countries, and this does not always lead to corrupt bargains between them. However, in Russia, it is chiefly through corruption networks rather than legal contacts that most economic operations are conducted, which account for a large part of the GNP. It is, reportedly, for this reason that the real incomes of Russian top officials involved in the decision-making processes at the state and municipal levels, according to some estimates, considerably exceed their official salaries. Even relatively honest officials can receive such great sums through these corruption networks that it becomes increasingly tempting to work within instead of outside those networks. Thus, these officials become less likely to actively avoid working in the interest of these networks and its members. As a result, state officials are motivated by their commitments to corruption networks more than by the interests of the country; they promote the interests of corruption networks rather than oppose them. This is the main reason for the low efficiency of state machinery, and this inefficiency is growing, leaving no possibility for developing or pursuing state and public interests.⁷⁹

For the same reason, given the existence of corruption networks in the present-day Russia, it is beyond expectation that the state authorities will be able to effectively deal with transborder corruption. Russian law enforcement agencies, courts and executive authorities become involved in this form of corruption rather than actively oppose it.

Civil Society Fighting Transborder Corruption

This major lack of efficiency in combating transborder corruption on the part of the state authorities, in Russia in particular, and of inter-governmental organizations, may be compensated by the involvement of civil society groups and their international associations.

Non-governmental and civic groups may decide to oppose transborder corruption, as it is the residents of the regions, in which such corrupt schemes and opaque projects are carried out, that suffer the most from the consequences of corrupt bargains, violations of human rights, infringement of freedoms, and unfair distribution of material benefits. This report provides two examples of civil society engaging in this.

The civil societies of regions suffering from transborder corruption have a specific resource for opposing it, i.e. their own networks. As a rule, state authorities fail to use this resource, as they are very seldom capable of using the network principle for building anti-corruption schemes. The hierarchical schemes of communication they apply instead make it impossible to combat the modern corruption with its network structure, transborder corruption being no exception.

Public groups are organized in a network, which is their advantage and a specific tool for fighting corruption, including its transborder variation. Furthermore, it is not only special anti-corruption NCOs and other public groups that can make a significant contribution to combating corruption. Corruption can penetrate into all kinds of spheres; this can be observed by public groups working in those spheres or controlling the work of the authorities and private businesses. Through the network communications with other civil society groups, such observations may be made public, leaving the law enforcement agencies to make their legal inquiries. Civil society groups can conduct their own investigations, but they must not try to substitute the law enforcement agencies and should refrain from direct accusations of corruption until legal evidence is obtained. Such cooperation between law enforcement agencies and civil society groups can increase the efficiency of combating corruption, including transborder corruption.

Lack of transparency and indications of possible transborder corruption in two public investigations

This report presents the results of two public investigations. In each case, there may be an element of transborder corruption.

The first investigation analyses the case with the construction of a port terminal for exporting oil, petrochemicals and liquidized natural gas from Russia and Kazakhstan. This project was financed by the International Finance Corporation (IFC), a branch of the World Bank, although, even before

the start of construction works, it was known that the terminal would pose a threat to the environment and the local community. The investigation carried out by Environmental Watch on North Caucasus revealed the following indicators of possible transborder corruption

- The land plots for the construction of the terminal were allotted and redistributed by Krasnodar Governors Nikolai Kondratenko and, later, Alexander Tkachyov using procedures that lack transparency and did not eliminate possible conflicts of interests
- The International Finance Corporation (IFC), which financed the project, classified it as Category B, which is usually assigned to projects that are not associated with great social or environmental risks and do not require fully-fledged public consultations. However, according to the result of an environmental expert evaluation, this project should have been classified as Category A, which needs the approval of the local population. This assignment of category causes suspicions of improper motivation on the part of not just Russian authorities but also foreign financial institutions and private businesses.
- Another indicator of corruption may be seen in the fact IFC made the decision to finance the project in spite of serious violations of legislation and adverse environmental and social effects revealed in 2004.
- Local residents and public environmental groups actively opposed the project and asked IFC to decide against providing a loan for it. However, the public protests were ignored, signalling a shortcoming in the IFC meeting its own procedural standards. This might be indicative of other interests.

The second investigation, which concerns a nickel mining project in the Novokhoporsky District of the Voronezh Region, reveals the following signs of possible corruption:

- No assessment of the strategic necessity to mine for non-ferrous metals in a farming region in close proximity to the Khopyor State Nature Reserve has been conducted. The results of the environmental expert evaluation of this project are concealed from the public, and the concerns of the local residents are not taken into account. According to an independent assessment, the project may cause irreparable damage to the environment through water pollution and the loss of invaluable black earth soils.
- The reason for the suspicion that there may have been corrupt motives in this decision is grounded on the connections that have been disclosed between the Ural Mining and Metallurgic Company, which won the contract, and the Voronezh Agency for Development and Innovation, which organized the tender. This is a clear sign of shortcomings in transparent procedures.
- Both local and federal newspapers have been observed distorting information in the interests of private businesses implementing the project, presenting protesters as enemies of the country.
- There are reasons to assume that fake opinion polls, distorting the actual opinion of the local population, were held in the interests of the same companies.
- It can be suspected that it was due to the same corrupt interests that even numerous meetings and panels at the Russian State Duma and the Public Chamber, rallies and protest actions, including international ones, have been unable to stop the project. In these cases, expected procedures were not sufficiently followed, indicating other interests.
- There are reasons to suspect that law enforcement agencies were also involved in corrupt scheme around the project, indicated by falsified criminal cases against one of the public activist protesting against the project.
- Available information indicates links between Russian and international private businesses that are involved in the project and federal and regional officials, as well as with persons engaged in transborder criminal activity.

It is necessary that the EU impose sanctions against European and Russian businessmen and officials involved in dubious financial schemes and corruption projects. However, before any such sanctions are imposed, it is necessary to conduct law enforcement inquiries in order to obtain objective evidence of the presence or absence of corruption motivation in the actions of those individuals. The information presented in this report provides a large number of entry points for such official investigations.

Colophon

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