

Following the UK report into the murder of Alexander Litvinenko, which concluded that there was a "strong probability" that the murder was carried out under the direction of the FSB and with the approval of Russian President Vladimir Putin, the question as to when the UK will finally tackle the criminal activities of the Russian state and its plutocratic associates seems wholly appropriate.

Experts have long highlighted the seamless links between Russian organised crime, the Kremlin elite and the Russian "Deep State". Edward Lucas of the Economist underlined the importance of these links in his books *Deception* and *The New Cold War*. Speaking at the Frontline Club in London in 2014, he said that no significant Russian company can operate without a licence from the state in the form of bribes in one form or another; that comment should be extended to the major criminal groups.

Writing in the Mail on Sunday on 23 January 2016, former UK shadow home secretary and now Brexit Minister David Davis commented, "Few in the West understand quite what a kleptocratic monster the Russian state has become. The asset-stripping that took place after the Soviet Union's collapse and enriched many oligarchs happened under the control of the KGB-installed siloviki. Putin is the leading member of the siloviki, and the main beneficiary of its actions. (...) The wealth is held by proxies, often concealed in layered offshore trusts and bank accounts. In the first six months of last year, more than \$2 billion of Russian money was moved to the Bahamas, and there are many other tax havens that hide Russian funds, including some British Overseas Territories. Along with the City of London, where the Russians also hide their wealth, these mean that Britain has more power to make things difficult for Putin than any country except the US (...) We should look at the assets of every friend of Putin. There are Russian billionaires in London whose fortunes are of dubious origin. It is time that they were subject to close inspection."

The relationship between big business, big crime and the Kremlin is what makes so much of Russian-speaking international crime different, and has so limited the effectiveness of democratic states' responses to it, ever since 1991. The ties reach beyond Russia's borders and across the former-Soviet world, according to informed commentators such as Mark Galeotti.

How do these long trails work? The answer is with a great deal of efficiency and effort, but also because of the number of white-collar professionals throughout the world who turn a blind eye to them. Following on from Edward Lucas, Russian companies trading internationally need to get de facto approval from the state authorities, including tax and customs. This allows the authorities to extort bribes all along the supply chain, and often on a grand scale. An obvious example is the Sergei Magnitsky case, documented by former investor Bill Browder in his book *Red Notice*, where the exposure of a tax fraud, running into the hundreds of millions of dollars and carried out by Russian Tax Service officials using Swiss companies, led to the lawyer being arrested, imprisoned without trial and subsequently dying of, at least, ill treatment before being placed on trial posthumously.

Brass-plate companies are bought off the shelf in London and other international corporate centres. These purchases include companies in traditional Caribbean tax havens, as well as new ones such as Cyprus, the Seychelles and Mauritius. This can be done in the UK quickly and cheaply. The companies are legally registered and remain dormant until called into use. It is no coincidence that the opening up of trade and travel between the ex-Soviet States and the West after 1991 coincided with a massive and sustained increase in the number of such registrations in the UK in preparation for the simplification and expansion of international trade after the introduction of the EU Single Market in 1992.

Many of these registrations were used by international fraudsters to carry out complex VAT carousel frauds, a multibillion euro industry in the EU and beyond. The scope for bribery is enormous, given that individual cases often exceed \$15

million. When the EU expanded in 2004, these frauds expanded into the Baltic States and Cyprus and typically involved import / export scams to and from ex-Soviet states. Switzerland is also favoured because it is home to so many mega-scale international banking transfers, often involving payments directly (sales and purchases) or indirectly (royalties and licence fees) regarding trade which never actually goes anywhere near Switzerland. Putin himself has been accused of masking his wealth via the Swiss route.

All this is known at the highest levels of law enforcement and intelligence agencies across the ex-Soviet Union. The author has personal experience of this, having had contact with senior Ukrainian security personnel following the 2004-05 Orange Revolution and in immediately pre- and post-Maidan Revolution Kyiv in 2013-14, and between those dates in Kyrgyzstan, where payments for the US Air Force's use of aviation fuel at Manas airport outside the capital, Bishkek, as an air-bridge for Afghanistan operations, were made to companies registered in Gibraltar.

The use of brass-plate companies along long chains from former-Soviet nations into locations such as Vienna and Riga, on to London, and then into such havens as the Caymans and Mauritius mirrors a similar use for the payment of "royalties" and "licence fees" to avoid tax and customs duties in their own countries, export capital and pay bribes, as demonstrated in the Magnitsky case. A significant number of top-end properties in London are owned through offshore companies. This export of capital to countries where the rule of law still operates often buys permanent residence, and sometimes citizenship. The assurance that suspect assets will not be frozen or confiscated without strict due process also provides a significant insurance policy against regime change at home. According to a report in the Guardian on 26 November 2012, since 1999, 94,670 offshore entities have been set up purely to hold UK property.

Private Eye magazine published a special report on the use of the UK in this manner in mid-2013, and has since returned to the subject repeatedly. Its highlights include the use of a London brass-plate company by former Ukrainian President Viktor Yanukovich's son in relation to contracts for the rebuilding and operation of Odessa Airport - Odessa being a city which is regularly cited as a centre of organised crime. The Independent and others have highlighted the use of a UK brass-plate nominally based in London's Harley St. to disguise Viktor Yanukovich's personal ownership of his opulent country estate outside Kyiv, complete with zoo. More recently, UK corporate service providers have expanded their services into English language non-dependent states by establishing companies in Mauritius where, not coincidentally, Russians do not require visas. There is no shortage of evidence, and it has been around for a long time. But throughout the West, and despite the significant post-Crimea sanctions in the EU and USA, there is still so much more which needs to be done.

The Litvinenko inquiry should galvanise the UK into action, especially given forthcoming conferences on corruption and dirty money. The inquiry revealed longstanding and ongoing links between Spanish-based Russian criminals such as the Tambov Group and high-ups from Putin's 1990's St. Petersburg circle, especially Viktor Ivanov, rightly often mentioned as the head of Russia's Federal Anti - Narcotics Bureau, but also the head of the arms manufacturer responsible for making Russia's then-world leading S-300 missile system, now scheduled to be supplied to Iran and which has also been supplied to Venezuela. The latter country's military elite have been linked to large-scale cocaine trafficking to Europe by an increasing proliferation of Russian linked routes via Calabria, the Adriatic and not least the Baltic and Black Seas. The military cooperation between the Russian and Venezuelan regimes is mirrored by the cooperation between their organised criminals.

The criminals and officials thrive on their contacts. In their world, everything is connected; therefore, any effective responses will need to be connected and

internationally coordinated. Some of the criticism levied at the UK - that it is unwilling to act for fear of damaging London's reputation as a global business hub - is unfair. It is true that, if London were able to truly enforce Ultimate Beneficial Ownership (UBO) practices and facilitate the freezing of suspect criminal funds and property, the impact on UK-based banks, professional intermediaries and the property market would be severe and to the benefit of the likes of the US, France and Spain, unless they took the same action at the same time.

Moreover, with the exception of physical property (whose ownership is often nominally offshore), relatively few "dirty" assets are actually held in the UK. Its primary role is as a perceived respectable location, intended to provide plausible deniability to middlemen in Caribbean and Indian Ocean tax secrecy jurisdictions and EU hubs such as Latvia, Cyprus, Greece and Croatia. This author has seen such documents over many years between 2002 and 2014, and noted the expansion of the use of professional service providers from London to the English regions, Wales and Scotland. The Ukrainian English-language Kyiv Post has been running front-page articles on these scams for years, even before the fall of Viktor Yanukovich. Anti-money-laundering legislation and regulatory practice haven't worked anywhere against such sophisticated networks.

The threat of criminal prosecution of professional service providers - who are very much onshore - has more promise, but the evidence of the summer 2015 UK Channel Four TV documentary "From Russia With Cash" suggests that London real estate agents aren't quaking in their boots at fear of prosecution. The new International Corruption Unit set up within the National Crime Agency with the support of the UK Department for International Development has pointed out a challenge faced by all other democratic states: before undertaking criminal investigations, the Unit and its legal advisers have to satisfy themselves that the criminal justice systems of cooperating countries meet their standards for preserving the integrity of evidence. In many former-Soviet states, that satisfaction can't be reached. A different approach is needed.

There is no magic wand, but this writer respectfully suggests (as a former VAT inspector) that a coordinated European and North American effort to making use of the direct and indirect tax systems might start to make an impact on the owners of the dirty money and their professional advisers. At the least, the quality and quantity of intelligence gathered would enable a better understood and more effective approach. It is likely that in all these countries of choice for the Russian elites, much of the wealth is inaccurately treated as "offshore" and is not taxed correctly.

This would be a long and slow process. A more effective, but far from cost-free, approach would be to create much more precise guidelines for professional service providers and to amend data protection regulations in order that selected professions can exchange information about suspect funds and their sources, so that they can exchange due diligence information, with the ultimate sanction of being struck off but without criminal prosecution except in extreme cases. That is a far from ideal solution, effective only if implemented internationally, but you have to start somewhere.

Whatever might be done, no one should be ignorant of the stakes. Such measures would be seen as a direct threat to the kleptocrats and their regimes, and they would not hesitate to retaliate. Any country where there is significant Russian influence and which offered meaningful cooperation with the West, especially Ukraine and Moldova but including Cyprus, Greece, Malta and the Baltics, would be likely to be subject to serious pressure from the full range of state bureaux, from tax inspections to accusations of harassment. For frontline states such as Ukraine, meaningful guarantees of substantial assistance in a wide range of economic, political and security areas would need to be offered. And at the very top end, the USA might wish to consider discussing with Cuba what that country knows about the

Venezuelan regime's links with Russia and the European-bound cocaine trade. That really would put the cat among the pigeons, but the Cubans would expect a very big offer indeed.

The other side is playing a long and hybrid game. It's time for the West to do the same.

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