

Written evidence
To the UK Intelligence and Security Committee of Parliament's Inquiry on Russia
by William Browder

William Browder is head of the Global Magnitsky Justice Movement.

Introduction

I appreciate the opportunity to provide testimony on Russia-related issues which have direct bearing on the work of the UK intelligence and security agencies.

Given the recent tragic events on UK soil, this inquiry could not have been more timely.

I will speak from personal experience.

By way of background, I was born in the United States. In my early adult years, I moved to the UK to forge a career in investment banking, and became a British citizen.

In 1996 I created Hermitage Capital Management to advise the Hermitage Fund, an international investment fund which aimed to provide Western investors with access to the Russian stock market.

Russia Declared Mr. Browder a Threat to National Security following Anti-corruption Work

The Hermitage Fund was very successful, to a large extent due to its active anti-corruption strategy. It quickly became the largest foreign portfolio investor in the Russian market. As a result of our vocal anti-corruption strategy targeting companies where Russian President Putin and his circle had vested interests, the actions of Hermitage attracted enemies in the Kremlin. This led to my expulsion by the Russian authorities in November 2005 as a threat to Russian national security.

Russian Intelligence Directed a \$230 Million Embezzlement of Hermitage's Taxes from the Russian Treasury, Working with the Klyuev Organised Crime Group ("KOCG")

As I expected, our fund quickly became the target of massive state retaliation. We learned about this first through an effort at extortion by a Russian official, followed by a raid on Hermitage's offices, and then a series of frauds against us. The retaliation and frauds were coordinated by a senior Russian official, Victor Voronin, who was at the time the Head of the Financial Counterespionage Department, also known as Department 'K' of the Russian FSB, a successor agency to the KGB.

As part of the attack on our fund, Russian authorities organised a brazen expropriation of Hermitage's Russian companies, which were some of the largest taxpayers in Russia. To carry out this coordinated fraudulent scheme, Russian police first raided Hermitage's offices to obtain corporate information and records of the fund's companies. They then worked with members of the dangerous transnational criminal organisation, known as the Klyuev Organised Crime Group ("KOCG"), to fraudulently re-register the fund's companies. This enabled the corrupt officials and members of the KOCG to take the companies away from their lawful directors appointed by HSBC, the fund's manager, and to place them into the names of three Russian individuals, all previously convicted for violent crimes, who were members of the KOCG.

The leader of the KOCG is Dmitry Klyuev, whom Russia convicted of a financial crime in 2006. Andrey Pavlov, a lawyer with substantial expertise in fraud and money laundering, acts as the KOCG's consigliere, playing a central role in conceptualizing and implementing sophisticated financial crimes, not only within Russia but internationally.

The corrupt officials and KOCG members were unable to steal the assets of the fund's companies, because after my expulsion from Russia, they were moved out of Russia. Accordingly, they instead organised the embezzlement of \$230 Million – the amount that the Hermitage fund's companies had paid in taxes to the Russian Treasury in 2006.

My lawyer Sergei Magnitsky then undertook an investigation of what had happened in the police raid of Hermitage's offices, the transfer of its companies to persons who had nothing to do with Hermitage, and the fraudulent tax refund which was then made to the corrupt officials and the members of the KOCG who profited from the crime. Mr Magnitsky painstakingly put together a case uncovering the details of this corrupt \$230 Million theft.

We felt certain that such a massive theft from the Russian government could not have had the approval of President Putin who publicly stated he was committed to fighting Russian corruption. Therefore we wrote to every single competent government body in Russia reporting the \$230 Million fraud and named officials involved.

Instead of investigating and prosecuting the perpetrators, the Russian authorities directed their wrath on persons who reported the fraud – ourselves, the victims of the fraud, and our outside counsel. Lawyers from four different law firms hired by Hermitage to investigate the fraud were immediately targeted by Russian police with bogus criminal cases as part of a campaign of intimidation against them.

The Russian authorities ignored appeals from the chair of the Moscow Bar Chamber, the Law Society of England and Wales and the International Bar Association in defence of Hermitage's lawyers.

The FSB and the Russian Interior Ministry then organised the arrest of Sergei Magnitsky, who had testified in defence of his colleagues and named a number of the corrupt officials involved in the fraud. Following his arrest, Mr Magnitsky was held 358 days in detention without trial in excrement-covered cells. He was repeatedly moved from cell to cell, denied medical treatment, violently abused, and beaten with rubber truncheons after he refused to change his testimony against the officials he had implicated. On 16 November 2009, following a beating and the continued denial of medical care, Mr. Magnitsky died in his cell at the age of 37.

Corrupt Russian State and Organised Criminal Interests Acting in Unison

Prior to his arrest, Sergei Magnitsky's investigations had discovered that the crimes involving corrupt Russian officials working with the KOCG extended well beyond the \$230 million embezzlement.

He discovered that the \$230 million embezzlement of the funds Hermitage had paid to the Russian Treasury was part of a series of embezzlements routinely carried out by the Russian officials and criminals, under the protection of the Russian FSB.

After Mr Magnitsky's arrest, we continued the investigation, and found further evidence of a merger between Russian organised crime and the Russian state, who together organise systematic looting from the Russian budget, as well as from private sector companies unfortunate enough to become their targets.

This merger of official corruption with private sector criminality serves multiple objectives of the Putin regime.

It has become simultaneously an instrument of fulfilling personal greed and of securing important Russian state objectives.

- First, the entanglement of Russian intelligence and the criminal underworld made it easy to generate large sums of illicit wealth for high level officials in the Russian government, including President Putin himself. For example, in 2016, the Panama Papers revealed that some of the proceeds of the \$230 Million fraud in which Hermitage was victimised, reached the Swiss account of Sergei Roldugin, a famous cellist and close personal friend of Mr. Putin, who has been described as the person holding the key to tracing Mr. Putin's hidden fortune.
- Second, the criminal proceeds obtained through this "partnership" of Russian intelligence and criminal groups are used to finance black ops and special projects of the Russian state. For example, some of the \$230 Million fraud proceeds were sent to a foreign account controlled by Syrian-Russian national Issa Al-Zeydi, sanctioned by the US Government, with ties to other persons sanctioned by the US Government, in relation to their support for the Assad regime and its illegal chemical weapons programs.

In these circumstances, it is not surprising that the Russian President, the head of the FSB, the head of the Russian Investigative Committee, and the Russian General Prosecutor jointly protect the corrupt Russian officials and Russian organised criminals carrying out these financial crimes.

It is in their interests to protect these massive frauds. They are among its main beneficiaries.

Impact of the Merger of the Russian State and Criminal Interests on UK Security

How does this new phenomenon of the merged Russian state and criminal interests affect the UK? What are the key implications for UK security?

The major impact of this phenomenon is the qualitative difference of the Russian state's conduct in the international sphere under President Putin, which is characterised by the following new elements which must be recognised:

- First, officials from Russia are primarily acting not in an official function, but to advance a criminal function. They are able to deploy official channels as their “cover” in the international arena;
- Second, Russian state interests have access to vast proceeds of crime that can be spent without any constraints to advance goals internationally;
- Third, Russian state interests, working in conjunction with and through criminal private interests, set up a “buffer” of Westerners who become de facto Russian state agents, many unwittingly, but others with reason to know exactly what they are doing and for whom.

As a result, UK actors have to deal with:

- (i) Russian criminal interests masked as state interests, and
- (ii) Russian state interests masked by their Western agents.

Western Buffer Network Developed by the Russian Agents to Promote Russian State Interests

For all practical purposes, Vladimir Putin has now been in charge of Russia since 2000. Over these eighteen years, he has deployed vast resources from criminal proceeds, as well as

misappropriations of assets from the regime's opponents and random victims, to fund and develop a non-Russian, Western "buffer network" which has enabled the Russian state to infiltrate UK society and to conceal the underlying Russian controllers and their agendas.

The 'buffer network' created in the West on behalf of merged Russian state and criminal interests and paid for with these illicit proceeds comprises persons, entities and organisations, hired, formed and engaged by the Russian state and private agents to advance the Russian state interests, often in disguise and under cover of 'confidentiality'.

This buffer network can have and will have serious detrimental effects on the UK democratic process, rule of law and the integrity of the financial systems, unless recognised and addressed at the policy and legislative level.

The Russian state effectively uses the Western persons who are incorporated into the 'buffer network,' taking advantage of their identities, skills, expertise and contacts in the West, to infiltrate Western societies.

They are used to conduct surveillance in the West.

They are used to produce messaging and policy briefs for Russian interests.

The Russian state then uses the intelligence and intelligence-based tools obtained through these Western 'buffer' persons to:

1. Identify vocal Western opponents to Russian state interests, plan and execute efforts to weaken, undermine and/or eliminate them;
2. Enhance Russian propaganda and disinformation;
3. Facilitate and conceal massive Russian money laundering operations perpetrated through the international banking and financial systems.

I will cite several examples demonstrating how this new phenomenon works in practice based on my experience with the Global Magnitsky Justice Movement.

When we came up with the idea of the Magnitsky sanctions legislation on corrupt Russian officials involved in gross human rights abuses, in his first foreign policy decree signed as president in May 2012, Russian President Vladimir Putin declared it his government's foreign policy priority to defeat these human rights sanctions.

The way the Russian government went about it was to gather intelligence on justice campaigners, come up with ways to silence us, damage us financially, and harm and intimidate us in any other way.

Russian Rendition Threat

In June 2014, I received a warning from the US Department of Justice that Russians were planning a rendition plot against me.

Separately, the Russians had hired a number of Western firms, including in the UK, who were paid significant amounts of money to gather intelligence on me, to advance a false narrative of the \$230 Million fraud uncovered by Sergei Magnitsky and to conceal its perpetrators from sanctions and liabilities in the West.

Engagement of Former UK Attorney General Lord Goldsmith by Andrey Pavlov, Consigliere of the Klyuev Organised Crime Group

As part of these efforts, the consigliere for the Klyuev Organised Crime Group, Mr. Andrey Pavlov, hired the former Attorney General of the UK, Lord Goldsmith, in an attempt to avoid being included on the European Parliament's Magnitsky Sanctions Recommendations list.

Lord Goldsmith's law firm, Debevoise and Plimpton, received £75,000 from Mr Pavlov upfront for this task. Mr Goldsmith charged £960 per hour on this assignment.

As we learned later, Lord Goldsmith signed the engagement letter addressed to Andrey Pavlov on 27 March 2014, saying:

“We are delighted that you have asked Debevoise & Plimpton LLP to act as your legal advisers in connection with the proposal of the European Parliament Foreign Affairs Committee to

impose targeted sanctions on certain individuals “*responsible for the death of Sergei Magnitsky, for the subsequent judicial cover-up and for the ongoing and continuing harassment of his mother and widow*” (the “Proposal”).

Notably, Lord Goldsmith’s page listing his engagements on Debevoise and Plimpton’s website has not disclosed his work for a member of the Russian criminal organisation, Andrey Pavlov.

This particular Russian project failed, as on 2 April 2014 the European Parliament included Mr Pavlov on the Sanctions List.

However, the project serves as an example of the willingness of a respected member of UK House of Lords to lobby on behalf of known Russian criminal interests.

The consequence of this is the emergence of a new kind of vulnerability and threat to the essential interests of the UK.

Hiring of former UK intelligence officers, diplomats and politicians

The Russians who were involved in the \$230 Million fraud and benefited from its proceeds were successful in enlisting a number of former UK intelligence officers, diplomats and politicians and using them to conduct surveillance and intelligence gathering on me, my colleagues and on Western politicians advocating for Magnitsky sanctions legislation in the UK and in Europe.

One stark example is Andrew Fulton, a former senior UK career diplomat, with postings in Saigon, Rome, East Berlin, Oslo, the UK mission to the UN in New York, and Washington DC. Since 2006 and until recently, Mr. Fulton was Chairman of GPW Ltd., a private business intelligence consulting firm. GPW Ltd, while under the chairmanship of Mr. Fulton, was hired not by one but by two persons connected to the \$230 Million fraud:

- (i) The Katsyv family. The patriarch of the Katsyv family, Petr Katsyv, is a senior Russian government official, and is currently a Vice President of the Russian Railways monopoly. His son, Denis Katsyv, owns Prevezon Holdings, a Cyprus company which received proceeds of the \$230 Million fraud on its Swiss account, and has been as a result, subject to three criminal money

laundering probes: in the US, Switzerland and The Netherlands;

- (ii) Andrey Pavlov, consigliere to the Klyuev Organised Crime Group (“KOCG”). Mr Pavlov was involved in the \$230 Million Fraud and other illicit activities of the KOCG.

When pitching GPW Ltd’s services to Mr. Pavlov, a lawyer from Debevoise & Plimpton, [REDACTED], specifically stressed that there would be no ‘conflict’ and instead ‘considerable advantages’ from Mr. Pavlov’s hiring GPW given that it was already paid to gather intelligence on me by the Katsyvs.

[REDACTED] wrote to Mr. Pavlov saying that GPW’s executive, Mr. Wodsworth:

“acts for individuals whose property was frozen in New York ...on suspicion that it was the proceeds of the underlying “Magnitsky transaction.” They are father and son called “Katz” (or similar) and I assume they are the owners of the Prevezon companies whose asstes [sic] were frozen” . . . “Mr. Wordsworth is already investigating this whole “affair” and, he said, how Mr. Browder made his money. There would therefore be considerable advantages for you to his involvement on your behalf. Neither Mr. Wordsworth nor I think there is any conflict for him to work for you.”

Mr. Wodsworth was listed by Tatler as 256th among “the people who really matter.”

[REDACTED], who worked with Mr. Wodsworth on the Russian project, recently left GPW

A further GPW Ltd’s associate who worked on the Russian project, [REDACTED] is a graduate of [REDACTED] and [REDACTED]. [REDACTED] describes her overall experience at GPW as follows: [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

When reached for comment by a Daily Beast reporter on assignments for the Russians, Mr. Fulton was quoted in reply:

“Thank you very much for your questions. It is not our policy to comment on speculation regarding the identity of our clients, or our projects. I’m sorry not to be more helpful.”

Indeed, GPW was very keen to maintain secrecy in respect of its assignments for the Russians.

“In the interest of confidentiality”, GPW assigned the project aiming to avoid inclusion of Mr Pavlov on the Magnitsky Sanctions List a code name: *“Project Eighe”*.

GPW Ltd asked Mr Pavlov to pay £50,000 upfront, prior to commencement of any work, *“given the complexity of the work and the sensitivity of the case”*.

The KOCG’s Mr Pavlov simultaneously hired CTF, a communications and government affairs firm, for £45,000, with the same goal - to avoid inclusion on the Magnitsky Sanctions List.

CTF’s employees who worked for Andrey Pavlov were:

- (i) Adrian Flook, who was the MP for Taunton from 2001-2005 and served on the Culture, Media and Sport Select Committee, and
- (ii) ██████████, who was previously an adviser to an MP and also in the Conservative Research Department.

CTF’s principals were Lynton Crosby, adviser to prime minister David Cameron and head of the elections campaign for Boris Johnson, and Mark Fullbrook, head of campaigns for the British Conservatives.

Denis Katsyv also hired FTI Consulting. FTI Consulting’s Aled Williams is a former British diplomat who was previously the spokesman for the UK Permanent Representation to the EU in Brussels. He helped to arrange meetings between Denis Katsyv’s Russian lawyer-lobbyist Natalia Veselnitskaya and journalists in Brussels in April 2016, and distributed her anti-Magnitsky statements to the media, as part of the Russian government’s goal to curtail the Magnitsky sanctions legislation in Europe. A little over a month later Ms Veselnitskaya

attended the notorious meeting at the Trump Tower, [REDACTED]
[REDACTED]

The Katsyv family hired a number of agents in the US, [REDACTED], to work on behalf of the Russian government's goal to derail the Magnitsky sanctions legislation in the United States and to smear leaders of the Global Magnitsky Justice Movement.

[REDACTED]
[REDACTED]

- | [REDACTED]
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[REDACTED]
[REDACTED]

Use of Western Persons for Russian Money Laundering

In addition to hiring agents in the West to impose the false narrative of the \$230 Million fraud uncovered by Sergei Magnitsky and to cover up its perpetrators and beneficiaries, the Russian persons has infiltrated the European banking institutions and company registration agencies.

Multiple UK persons and companies had been engaged by Russians for the purpose of money laundering facilitation.

UK persons have been engaged in providing their identity and passport details to set up offshore registration agents for the Russian criminal interests, which registered hundreds of companies in the UK, New Zealand, BVI, Belize, Panama and other jurisdictions, opened accounts in countries with developing or non-existent anti-money laundering controls, including Cyprus, Moldova, Russia, Kyrgystan, Ukraine, Lithuania, Latvia and Estonia, through which billions of dollars have been laundered in proceeds connected to illicit activity, including the activities of the KOCG exposed by Sergei Magnitsky.

Some of the individuals used in this network were identified by the International Consortium of Investigative Journalists as:

- i. Andrew Moray Stuart, born in 1957, residing first in Dubai and then in Mauritius, with 297 companies registered in his name;
- ii. John Wortley-Hunt, born in 1960, residing in Dubai, with 652 companies registered in his name;
- iii. Stephen Kelly, born in 1964, residing first in Dubai, with 930 companies registered in his name;
- iv. Matthew Charles Stokes residing in Dubai, with 1,256 companies registered in his name;
- v. Edward George Frank Cocks with 190 companies registered in his name;
- vi. Damian Calderbank born in 1964 residing in Dubai had 708 companies registered in his name.

The investigation by the International Consortium of Investigative Journalists conducted in 2012 identified a total of 28 individuals, many of them British citizens, who had their names registered to 21,554 companies, including **8,986** companies in the UK alone.

Those companies did not conduct genuine business activities and likely provided false filings to the UK's Companies Houses over a number of years. A number of them were found to be involved in the crimes uncovered by Sergei Magnitsky.

For instance, Nomirex Trading was registered in the UK to a company, in turn registered to a Stephen Hughes, who had more than 200 companies registered to his name.

While Nomirex Trading was filing dormant financials in the UK, it showed a turnover of hundreds of millions of dollars in its account with Latvia's Trasta Komercbanka, with proceeds connected to Dubai properties for corrupt Russian tax officials who approved the \$230 Million fraud.

Four companies (Castlefront, Everfront Sales, Jackwell, and Unitronic) were registered in the UK at addresses of mass registration and filed miniscule financial returns in the UK. At the same time, they in fact transferred nearly \$3 billion on accounts with the Estonian branch of Danske Bank, including in proceeds connected to the \$230 Million fraud.

These suspicious transactions have been reported, yet, no action has been taken by the regulatory and law enforcement authorities in the UK, even when law enforcement proceedings were opened abroad and journalistic investigations provided detailed information on the use of these companies in largescale financial crimes.

I do not know why London's official investigative bodies have been so slow in investigating cases of serious Russian money laundering and fraud. Perhaps it is a matter of having limited resources. But I am concerned that this lack of consequences and the ease with which they managed to infiltrate the UK financial and corporate registration systems have created the sentiment of impunity and emboldened Russian crime groups and state interests in the last decade.

Conclusion

When most people think about Russian espionage, they picture a Russian government employee operating under diplomatic cover.

However, today instead of the espionage being conducted by foreigners, it is actually being conducted by UK citizens.

British politicians and consultants, including former intelligence officers, have been used by the Russian government to go after their enemies. Many UK persons and companies have derived financial benefit from Russian criminality, and accepted proceeds connected to crime as remuneration for their advisory services.

To address the serious threat to UK security in the 21st century from the merged Russian state and criminal interests and the Western buffer network they have built, it is necessary to:

1. Recognise this new phenomenon;
2. Require voluntary declaration of work for alleged foreign state and criminal interests from consultants working for such interests;
3. Impose penalties for failure to declare work for alleged foreign state and criminal interests;

4. Keep an open register of UK persons working for alleged foreign state and criminal interests;
5. Review filings made with Companies House by companies engaged by known proxy networks used for Russian money laundering;
6. Prosecute those agents who provided their services and filed falsified returns;
7. Allocate adequate resources to the law enforcement and regulatory bodies that are supposed to protect the British public and our markets;
8. See that UK regulators, investigators, police and prosecutors bring cases against serious financial crime offenders, including but not limited to those operating on behalf of or in partnership with the Kremlin.