Written Evidence from Dr Andrew Foxall (RSC0012)
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About the Author

Dr Andrew Foxall has been Director of the Russia and Eurasia Studies Centre at The Henry Jackson Society since 2013, and in 2017 became Director of Research. Previously, he held academic positions at Queen’s University Belfast and the University of Oxford. He holds a DPhil from the University of Oxford.

Dr Foxall’s research focuses on economic, political and security trends in Russia and the countries of the former Soviet Union. He is the author of *Ethnic Relations in Post-Soviet Russia* (Routledge, 2014 and 2017) and has written for major international media outlets, including *The New York Times, The Telegraph, The Wall Street Journal*, and *Foreign Affairs*.

About The Henry Jackson Society

The Henry Jackson Society is a think-tank and policy-shaping force that fights for the principles and alliances which keep societies free, working across borders and party lines to combat extremism, advance democracy and real human rights, and make a stand in an increasingly uncertain world.

Summary

- During his time in power, Vladimir Putin has built in Russia a grotesque kleptocracy.
- Russia’s elite like the system they have helped Mr Putin build so much that they do not keep their money in the country. Instead, they would rather keep in the West – and the UK is a favoured destination.
- Over recent years, a new Russia policy has been taking shape in the UK. Nevertheless, more could be done – in particular to tackle the issue of Russia corruption.
- Because there is so much corrupt Russian money in the country, the UK has leverage over Russia.

Evidence

1. **During his time in power, Vladimir Putin has built in Russia a grotesque kleptocracy**. Russia’s National Anti-Corruption Committee estimates the annual cost of bribery to be US$300 billion, which is roughly 15 percent of the country’s Gross Domestic Product (GDP) or about equal to the entire GDP of Denmark or Singapore. Such predation is not a flaw in Mr Putin’s system, but is the basis of the system itself. Those who have benefitted and continue to benefit from this system have secured and increased their wealth by relying on and bolstering the power of the state.

2. Russia is not, however, a law-less country. It does have a rule of law, but it serves the interests of Mr Putin and allows those individuals close to him to act with impunity. Over

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the last 18 years, political figures close to Mr Putin have become millionaires; Mr Putin’s friends from St Petersburg have become billionaires; and oligarchs have become billionaires many times over. According to Credit Suisse, 111 billionaires control nearly a fifth of all household income in Russia and the top 10 percent of the population control 85 percent of the country’s wealth. These individuals are able to maintain that wealth, and the power that comes with it, as long as they remain loyal to Mr Putin and do as he asks.

3. That is not to say Russia’s elite does not see the benefits of the rule of law. It does – just not in Russia. Those members of the elite who have looted – and continue to loot – Russia like the system they have helped Mr Putin build so much that they do not want to keep their money in the country. They do not want their spouses to live in Russia, or their children to go to school in Russia. Instead, they would rather keep their money, allow their spouses to live, and educate their children in the West – and the UK is a favored destination.

4. For his own part, Mr Putin appears to have benefitted enormously from the system he has created. In 2007, a CIA assessment of his personal wealth “largely tracked” with assertions made by Stanislav Belkovsky, a Russian political analyst, who said that Mr Putin effectively controlled holdings worth around $40 billion at the time. A more recent estimate by Bill Browder, author and former fund manager in the Russian Federation, puts Mr Putin’s wealth at $200 billion.

5. Whole sectors of the UK economy have developed around enabling corruption, from Russia and elsewhere. But the problem is not just the unscrupulous bankers, financiers, lawyers, accountants, and company formation agents who help funnel money through offshore accounts until it washes up in London. Nor the estate agents who turn a blind-eye to the purchasing of properties. It is also those pin-striped individuals who facilitate the buying of high-end goods, such as artwork and antiques, cars, yachts, and jewellery. And private schools.

6. Over recent years, a new Russia policy has been taking shape in the UK. The policy is based on a combination of strengthening our allies, deterring Russia’s aggression, and communicating the truth about the Kremlin’s actions to the international community. Its aim is to protect the UK and our Western partners. It reflects a sound – and realistic – understanding of the challenge Russia poses.

7. Nevertheless, more could do be done – in particular to tackle the issue of Russian corruption. This includes:

   a. Applying much tougher money-laundering laws to keep corrupt Russian individuals out of the UK. For far too long, the UK, through the City of London

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6 Andrew Foxall, ‘For years Britain was soft on Russia and its money – finally we are standing up to Moscow’, The Telegraph, 16 November 2017, available at: http://www.telegraph.co.uk/news/2017/11/16/years-britain-soft-russia-money-finally-standing-moscow/
and Britain’s tax havens, has been a centre of Russian corruption. In 2006, the City allowed Rosneft, an oil company, to list its shares. Rosneft is a loosely-disguised arm of the Russian state whose riches are based on the Kremlin’s illegal dismemberment of the Yukos energy company – a process which involved the imprisonment of its owner, Mikhail Khodorkovsky, for nearly a decade and led to him being recognised by Amnesty International as a “prisoner of conscience” in 2011.

b. **Introducing a public register of the real owners of overseas companies used to buy UK property.** The UK’s property market is a prime destination for the proceeds of Russian corruption. Transparency International has identified at least 160 properties worth £4.4 billion in the UK that have been purchased with suspicious wealth – over a fifth of which has its origins in Russia. Although the UK Government committed, in 2016, to introducing legislation by April 2018 that would require overseas companies owning property in the UK to publically declare their real owners, this is now not due to happen until Summer 2019.

c. **Enforcing the due diligence procedures undertaken by UK financial institutions more.** Last year, En+, a metals and energy conglomerate controlled by the oligarch Oleg Deripaska, was listed on the London Stock Exchange. Deripaska publicly said that the proceeds from the first sale of shares would go to repay the company’s debt to VTB, a well-connected Russian bank targeted by sanctions and which is prohibited from raising money in London. In addition, En+ owns half of Rusal, a Russian aluminium company which boasted on its website of being involved “in the production of military equipment”.

d. **Expanding the use of Unexplained Wealth Orders (UWOs) to target potentially illicit Russian wealth in the UK.** Introduced in the Criminal Finances Act 2017, UWOs require individuals who are reasonably suspected of being involved in corruption to explain how they were able to obtain a property. The circumstances under which the Orders may be applied are narrow, but there are a number of the Russian elite to whom they might apply. As Transparency International has documented, Igor Shuvalov, Russia’s First Deputy Prime Minister, is suspected of owning two flats in 4 Whitehall Court, just 10 minutes’ walk from Parliament. His and his wife’s joint wealth is £634,000, but the flats are worth £11.44 million.

e. **Expanding and strengthening the financial crime-fighting architecture in the UK.** The ‘National Security Capability Review’, published in March 2018, calls for a “whole-of-government approach to serious and organised crime” and outlines plans to second staff from across governments into newly-created bodies.

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9 Transparency International, ‘Unexplained Wealth Orders in use: Here’s at least 5 cases the police should consider today!’, 31 January 2018, available at: http://www.transparency.org.uk/uwo-consider-today/#.WuMw5Jco9PY
This is welcome, but government as a whole lacks the analytical and intelligence capacity, expertise, and resources to tackle the problem. Government also rarely functions as well as it might. A major money-laundering investigation, for example, would necessarily involve the Financial Conduct Authority, City of London Police, National Crime Agency, Serious Fraud Office, HM Revenue and Customs, National Security Council, the intelligence and security services, and others, and such joined-up work is beyond what is often currently possible.

8. Over the past two decades or so, Russia has played divide-and-rule games between Western countries and within them. It has engaged in repeated acts of military sabre-rattling, subversion, and economic coercion – and used corruption as a weapon of foreign policy. The aim has been to weaken individual states and to create the perception that the targeted country is isolated and indefensible. With such a perception, these countries are vulnerable to the Kremlin’s influence. Together, Western countries are stronger than Russia. But individually, these same countries are – on the whole – weaker than Russia.¹⁰

9. But the UK is not just any Western country. It is where oligarchs, current and former members of Mr Putin’s elite, and all manner of individuals who have profited from Russian corruption choose to do business, invest, and live. Because of this, the UK has leverage over Russia.

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