A Hot Moscow Money Trail

Energy Financial Chicanery 101

My previous two decades-plus of work in the intelligence community dovetailed into my parallel career in global energy matters where personal contacts and networks often intersected. Not infrequently, this provided an insight into analysis and product having a more geopolitical impact.

I want to briefly sketch one such development on this occasion. But first, some perspective.

In my international work, I occasionally come across questionable money trails.

Usually, these involve machinations either to hide the real ownership/finance involved in a transaction or the benefiting party/parties, but the exercise at the end remains a transfer focused on the delivery of energy to an end user.

Until a few years ago, that approach almost always had other purposes centering around who made the money, and those “more traditional” examples of contract subterfuge are certainly still around.

But the use of energy conduits for other geopolitical or surreptitious purposes is far more disconcerting – particularly because the ultimate objective is unrelated to the sector, and is instead centered on how the proceeds are used.

The path taken often depends on the region in focus, and there are as many different variations for the charades played as there are ad hoc reasons for the need to hide participants.

For example, if the deal is Iranian or off book Iraqi, the trail will often flow through the hundreds of shell entities populating the penumbral region surrounding the Dubai Stock Exchange. More recently, the preferred path has moved through banks based in Doha, the capital of Qatar. Iranian deals tend to focus on bypassing restrictions associated with accessing global hard currency markets (necessary to pre-finance oil and natural gas shipments). Meanwhile, Iraqi deals need to “fold” siphoned volume for private use and can end up designated as Kurdish, Turkish pipeline pass through, or even simply as add-on SOS (side of ship) consignments at the port of debarkation.

Both skirt (or out-rightly violate) international sanctions and/or somebody’s idea of domestic legal restrictions.

Meanwhile, transactions moving through European major banking centers like Zurich, Frankfurt, Paris, and even London are sometimes designed intentionally to obfuscate actual ownership or accounts involved. These in many cases shield from easy view transactions that initially moved through "postage stamp" locations known for a lack of banking transparency (think Andorra, Liechtenstein, Luxembourg, Isle of Man, and the like) or involve rapid fire multiple numbered account transfers.

In Asia and the Pacific, similar paths lead to (and from) locations that run the gamut from Singapore to the isolated island enclave of Nauru.

Political Capital

But the subject I want to focus upon today involves the use of energy financial proceeds in ways that have nothing really to do with energy…and everything to do with advancing a nationalistic political agenda.

I have run into several examples of such activity over the past decade. These have been put forward by major oil producers intent on providing leverage using proceeds from international sales as a way of furthering non-energy policies.

In each case, there have always been two common elements. First, these situations involve a government funding off-budget projects with redirected proceeds from foreign oil or gas sales. Second, that "non-booked" money would be run through foreign financial entities controlled by the home government.

For example, until a few years ago, Tehran would regularly use the small Iranian-owned but German Central Bank-licensed Europäisch-Iranische Handelsbank (EIH) to access foreign hard currency banking.

This "European-Iranian Trade Bank" served as the primary institutional structure in settling sales of Iranian crude. EIH was registered to do business by the German banking authorities but was 100% owned by Bank Markazi (the Iranian central Bank).

Tehran would also use EIH (and proceeds from foreign oil sales kept abroad in Europe) to fund Hezbollah, Hamas, and other terrorist organizations, purchase technology and material for its nuclear program, as well as accessing and in some cases proliferating weapons to other countries.

Washington put EIH on its black list, saying it provided banking services to Iranian companies and agencies involved in such non-energy endeavors, put pressure on European banks to avoid working with

EIH, and ultimately caused the German Bundesbank to pull the license.

The American move caused some problems with Brussels. EIH may have been Iranian-owned, but it was also a German licensed bank operating in the German domestic banking system. Some members of the EU regarded such US pressure as tantamount to interfering with European internal banking oversight.

Moscow on the Hudson

My other example, however, is continuing today and may well end up as one of the primary cogs in a broader investigation.

Russia is another one of those producing countries that has been financing projects and external operations off budget. Anecdotal evidence (supported by personal contacts who follow such matters closely) point toward a significant chunk of oil and natural gas export proceeds lodged abroad without ever first moving through central budgetary accounts.

In all, about 40% of government expenditures for the entire range of domestic and international activities conducted by the Kremlin are run off budget, the clear majority paid for by oil and gas revenue not accounted for in any traditional accounting manner.

The point sources for both the retention of proceeds abroad and the disbursement of funds are based in London and Switzerland. We have discussed these outlets in previous editions of ECRG Intel.

But there is now a new wrinkle.

Gazprom Marketing and Trading (GM&T) is headquartered in London. It also has offices in Houston, Manchester, Paris, Singapore, and Zug (Switzerland). This last office is at the same address as the administrative center for both Nord Stream and Nord Stream II – the natural gas pipelines between Russia and northern Germany. Nord Steam II is now in the cross-hairs of enhanced US sanctions.

On the oil side, state major Rosneft has financial firms in several locations abroad, notably in Switzerland and Ireland (Rosneft International Finance Ltd, RIFL). It has been involved in a series of unusual bond and credit issuances and is already under US sanctions.

The Kremlin has regularly used both GM&T and RIFL, as well as a network of holdings serving as conduits for the use of export sales proceeds from both companies. Among other interests, these holdings include financing outlets deigned to invest in real estate.

Here is what my intel sources have been telling me:

Beginning almost a decade ago, first Gazprom and then Rosneft employed intermediary interests to provide funding for real estate ventures in the US and elsewhere connected to targeted US individuals. These included a high nine-figure eleventh-hour bailout of a major high rise in Chicago, along with other high-end residential and high profile office projects located in New York City; Jersey City, New Jersey; and a Palm Beach, FL mansion, among other sites.

The investments were funneled through Russian high net worth individuals who served as either venture silent partners or actual purchasers of all or some of the holdings involved. All funds were Gazprom and/or Rosneft export sale proceeds or had those proceeds used as collateral in the deals.

About the Author

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He serves as an advisor to the highest levels of 27 countries, including the U.S., Russian, Kazakh, Chinese, Iraqi, and Kurdish governments, to the governors of several U.S. states, and to the premiers of two Canadian provinces. He's served as a consultant to private companies, financial institutions and law firms in 29 countries, and has appeared more than 2,300 times as a featured radio-and-television commentator. He appears regularly on ABC, BBC, Bloomberg TV, CBS, CNBC, CNN, NBC, Russian RTV, and the Fox Business Network.

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