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Laundromats: responding to new challenges in the international fight against organised crime, corruption and money laundering

Addendum to the report[1]
Committee on Legal Affairs and Human Rights
Rapporteur: Mr Mart van de VEN, Netherlands, Alliance of Liberals and Democrats for Europe

1. Introduction

1. Since the adoption of the report on 4 March 2019, two new matters have arisen: firstly, the publication by the Organised Crime and Corruption Reporting Project (OCCRP) of reports on a further large-scale money-laundering scheme, dubbed the "Troika Laundromat";[2] and secondly, developments in relation to corruptive activities within the Assembly to which the Azerbaijani Laundromat had contributed. Both give rise to the need to make certain amendments to the draft resolution, to be proposed by the Committee on Legal Affairs and Human Rights.

2. The "Troika Laundromat"

2. The Troika Laundromat is named after Troika Dialog, Russia's largest private investment bank, run by Ruben Varbanyan. Details of the scheme emerged as a result of a major leak of banking and other documents relating to some 1.3 million transactions concerning 238 000 companies. The Troika Laundromat itself involved a web of at least 75 companies. Between 2006 and early 2013, over US$4.5 billion passed through the system; US$8.8 billion-worth of transactions, relating to fictitious trade deals, took place between the companies involved in order to mix and obscure the origins of those funds. The scheme was put together and administered by Troika Bank on behalf of its clients.

3. The Troika Laundromat makes particularly apparent the origins of laundered money in Russian organised crime and corruption, including the Magnitsky case, fraudulent overpricing of fuel supplies to Moscow-Sheremetyevo airport and large-scale tax evasion. In late 2008, an Austrian lawyer, Erich Rebasso, confessed to the Austrian police that he had been laundering money for Russian criminals. Two years later, the Austrian police concluded that they had no jurisdiction as any crimes had been committed abroad by foreigners.[3] In 2012, Mr Rebasso was kidnapped and murdered. Two former Moscow police officers were convicted in Russia in 2014 – but for the ransom demand, not for murder. High-level political connections feature once again: Sergei Roldugin, a close friend of Russian President Vladimir Putin and a cellist, who was also prominent in the Panama Papers, is said to have received at least US$69 million through the Troika Laundromat.[4]

1. Addendum approved by the committee on 8 April 2019.
2. "The Troika Laundromat", OCCRP, 4 March 2019; the relevant webpage includes links to related articles.
3. This illustrates the problem of law-enforcement agencies failing to prosecute money laundering as a third party or standalone offence, referring instead to a predicate offence: see paragraph 5.2.4 of the draft resolution.

4. The OCCRP notes that four essential elements are needed to build a "laundromat", including a "bank with low anti-money laundering compliance standards" and a "maze of secretive offshore companies to hold accounts at the bank". On these accounts, the Troika Laundromat has striking similarities with the Global and Azerbaijani Laundromats: the vulnerable bank was located in a Baltic State, in this case being Ukio Bank in Lithuania; and three shell companies based in the British Virgin Islands played a pivotal role in establishing the network of offshore companies.

5. The report adopted on 4 March 2019 already examines in detail the role of Danske Bank Estonia in the Azerbaijani Laundromat (as well as in wider money laundering) and, in less detail, that of the Latvian ABLV bank in the Global Laundromat. With the addition of Ukio Bank in Lithuania, it becomes even more apparent that the Baltic States' banking systems were and may still be peculiarly vulnerable to exploitation by international money laundering schemes. Latvia's vulnerability is described in paragraph 15 of my explanatory memorandum, but these characteristics are equally applicable to Estonia and Lithuania: former Soviet republics, with significant Russian-speaking populations, that soon joined the European Union, subsequently acting as a "bridgehead" giving easier access to the EU banking system, including through strong connections to Nordic banks such as the aforementioned Danske Bank and Swedbank (which is now also being investigated for involvement in the Danske Bank Estonia scandal[5]).

6. Because the euro did not become Lithuania's currency until 2015, Ukio needed correspondent accounts with foreign banks to conduct euro-denominated transactions. Several major banks provided such services to Ukio, including Raffeisenbank in Austria and Commerzbank in Germany. Although the OCCRP reports that some of these banks "did sporadically inquire about the nature of some transactions", questions must be asked about whether they discharged their anti-money laundering requirements diligently.[6] At the same time, international banks should discharge their correspondent responsibilities sensitively and responsibly, also avoiding generalised over-reactions to troubled jurisdictions by withdrawing from them entirely – a practice known as "derisking", which may deny access to regulated financial services to legitimate individuals and businesses.[7] Indeed, in April 2017, Deutsche Bank, a major provider of correspondent banking services to banks in Estonia and Latvia, announced that it would suspend these activities.[8] It has been reported that the gap has largely been filled by Russian banks, notably State-owned VTB, which has been described as "not really a bank but a Kremlin slush fund that is supposed to provide financing for whatever aim the Kremlin might suggest".[9]

3. National parliamentary action in response to corruptive activities in the Parliamentary Assembly related to the Azerbaijani Laundromat

7. Paragraph 4 of the draft resolution notes that "the Azerbaijani Laundromat also provided money that contributed to corruption activities within the Parliamentary Assembly". One of those named as most clearly seeming to have received some of this money is Karin Strenz. The draft resolution notes that the German *Bundestag* has found her in violation of its ethical rules. Since then, the *Bundestag* has imposed a fine of around €20 000 on Ms Strenz, the highest ever applied. I welcome the fact that the *Bundestag* has taken such strong action, inflicting a penalty that makes clear its view of the gravity of Ms Strenz's conduct.

8. On 14 March 2019, Transparency International Germany announced that it had filed a criminal complaint against both Ms Strenz and Eduard Lintner with the German prosecutor, citing section 108e of the Criminal Code, on bribery of elected officials. Transparency International Germany believes that this is the first time that section 108e, which was introduced following Germany's ratification of the 2004 United Nations Convention Against Corruption, has been used and expects this to be a test case of its adequacy as an anti-

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4. President Putin's spokesperson has dismissed the Troika Laundromat reports, claiming variously that they are untrue, invented, old, confused and/or relate to a situation that arose during a period when Russia operated by the "law of the jungle" ("Kremlin Dismisses Troika Allegations", OCCRP, 12 March 2019). The authorities' assertion in the same article that "80%" of Russian financial institutions now respect anti-money laundering rules speaks for itself.
5. "Watchdog launches probe into Swedbank after money laundering allegations", *The Local*, 21 February 2019.
6. Recommendation 13 of the OECD Financial Action Task Force's (FATF) 40 Recommendations on combating money laundering and the financing of terrorism and proliferation sets out specific obligations "in addition to performing normal customer due diligence measures", which are themselves set out in Recommendations 10 and 11. The FATF's recommendations are applied also by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).
7. See for example "The Decline in Access to Correspondent Banking Services in Emerging Markets: Trends, Impacts, and Solutions", World Bank Group, 2018.
8. "Deutsche Bank suspends dollar-clearing service in Estonia", ERR News, 11 April 2017.
9. "Russia and money-laundering in Europe", EU Observer, 25 March 2019.

corruption measure. Mr Lintner, no longer being a parliamentarian, is not subject to sanction by the *Bundestag*, so I welcome the prosecutor's investigation of the allegations against him and Ms Strenz and hope that all appropriate measures will be taken as a result.

9. The trial of Luca Volontè for bribery and corruption in relation to money received via the Azerbaijani Laundromat continues before the Milan tribunal. The latest hearing took place on 11 March 2019.[10]

4. Other matters

10. Since adoption of the report, I have been led to understand that the implication in paragraph 5.3.3 of the draft resolution that the OECD's Financial Action Task Force and MONEYVAL were "relatively inattentive" to the effectiveness and implementation of national anti-money laundering regimes is inaccurate and unfair. I therefore suggest an alternative wording for this paragraph.

11. Finally, I have been contacted by Mr Alexander Hristov, Chief Executive Officer of Doverie–United Holding AD, a Bulgarian company that recently bought a 64% stake in Moldindconbank, the Moldovan bank at the heart of the Global Laundromat. Mr Hristov disputes two points that appear in paragraph 12 of my introductory memorandum. First, he denies that Moldindconbank has been bought by two Bulgarian businessmen, Ognian Donev and Radosvet Radev. I note, however, that Mr Donev controls a company called Sopharma, which is the largest single shareholder (33%) in Doverie–United Holding, and is Vice-Chairperson of its Supervisory Board; and that Mr Radev founded Doverie–United Holding and is Chairperson of its Supervisory Board. In these circumstances, I am prepared to stand by my original statement, with the above qualifications. As to Mr Hristov's other assertion – that Mr Donev has been acquitted of tax evasion – I am prepared to accept that in February 2019, Sofia City Court did indeed take such action, whilst noting reports that the prosecution intended to appeal against the court's decision,[11] which Mr Hristov himself recognises is not final.

5. Proposed amendments

Amendment A (to the draft resolution)

In paragraph 1, after the words "moved out of Azerbaijan", insert the words ", and the "Troika Laundromat", which transferred another US$4.6 billion out of Russia,".

Amendment B (to the draft resolution)

In paragraph 4, after the words "violated its ethical rules", add the words "and fined her a record €20 000. Transparency International Germany has filed criminal complaints against both Ms Strenz and Eduard Lintner for the offence of bribery of a public official".

Amendment C (to the draft resolution)

In paragraph 4, replace the words "two others, Eduard Lintner of Germany and" by the words "last of the five,".

Amendment D (to the draft resolution)

After paragraph 4, insert the following paragraph:

> *"The Troika Laundromat again involved numerous shell companies, with three based in the British Virgin Islands playing a pivotal role, and the central involvement of a Baltic bank, in this case Ukio Bank in Lithuania. Persons close to the heart of State power were again implicated, this time including a close friend of President Putin. The Troika Laundromat is particularly revealing of the origins of laundered funds in organised crime and corruption. It also illustrates the importance of effective AML procedures within banks that provide correspondent banking services to foreign partners as an additional safeguard against international money laundering."*

10. "Processo all'ex parlamentare dell'UDC Luca Volontè" (audio recording of the court hearing), Radio Radicale, 11 March 2019.
11. "Court Acquits Businessman Ognyan Donev of Tax Evasion", Bulgarian News Agency, 8 February 2019.

Amendment E (to the draft resolution)

After paragraph 5.2.9, add the following paragraph:

"particular vulnerabilities in the banking systems and AML systems in the Baltic States;".

Amendment F (to the draft resolution)

Replace paragraph 5.3.3 by the following:

"the Financial Action Task Force (FATF) and the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) only recently increasing their focus on the effectiveness and implementation of national AML regimes, following a change to the methodology by the FATF in 2013."

Amendment G (to the draft resolution)

After paragraph 6.6, insert the following paragraph:

"the Baltic States to address the particular features of their banking systems, including the prevalence of non-resident accounts, that may make them peculiarly vulnerable to international money laundering;".

Amendment H (to the draft resolution)

After paragraph 6.7.5, insert the following paragraph:

"ensure that banks providing correspondent banking services fully and appropriately implement relevant AML requirements;".