

Police Implicate Magnitsky in Fraud

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Amid swelling international pressure over lawyer Sergei Magnitsky's death, the Interior Ministry struck back Monday by accusing Magnitsky of participating in a Hermitage Capital scheme to embezzle 5.4 billion rubles in federal funds — and of not even being a lawyer.

The Interior Ministry's announcement came on the eve of the first anniversary of Magnitsky's death on Nov. 16, 2009, in a Moscow pretrial detention center. Magnitsky, who represented Hermitage Capital, once Russia's biggest foreign investment fund, was arrested on tax charges in 2008 after he accused senior Interior Ministry officials of embezzling the 5.4 billion rubles (worth \$230 million at the time) in federal funds.

No arrests have been made in Magnitsky's death, even though President Dmitry Medvedev has promised a thorough investigation, and the Interior Ministry has presented service awards to several investigators implicated by Magnitsky's supporters in his arrest and death.

U.S. President Barack Obama raised the case with Medvedev during a meeting in Japan over the weekend, and U.S. and Canadian lawmakers are considering legislation that would impose

sanctions on 60 Russian officials linked to the case.

But Irina Dudukina, a spokeswoman for the Interior Ministry's Investigative Committee, told reporters Monday that it was Magnitsky and Hermitage who had perpetrated wrongdoing, not officials at her ministry.

She said Vyacheslav Khlebnikov, general director of Makhaon, a Tatarstan-based company, had admitted to investigators that he and Magnitsky participated in a scheme to defraud the Federal Tax Service of 5.4 billion rubles.

“Khlebnikov has pleaded guilty and given a confession,” Dudukina told reporters.

She said his confession matched one made by Viktor Markelov, general director of the Tatarstan-based Parfenion company, who is now serving a five-year prison sentence after being convicted in connection with the purported fraud in 2009.

Dudukina accused Hermitage Capital of orchestrating the scheme and said other participants included Riland director Valery Kurochkin and businessman Oktai Gasanov.

Makhaon, Parfenion and Riland are former subsidiaries of Hermitage, but Hermitage says the four purported fraudsters — Khlebnikov, Markelov Kurochkin and Gasanov — only became associated with the companies after it lost control of them.

Dudukina said the purported fraudsters filed illegal tax declarations in fall 2007 claiming tax refunds for the previous year. Tax officials refunded the 5.4 billion rubles because they were confused by forged documents prepared by Magnitsky, Dudukina said.

She spread out for reporters a large sheet of paper showing a list of the some 70 companies and 10 banks supposedly involved in the scheme.

Hermitage has accused Interior Ministry investigators of seizing stamps and papers from Makhaon, Parfenion and Riland to file forged documents to defraud the government of 5.4 billion rubles.

Dudukina denied this claim Monday.

Neither Kurochkin nor Gasanov could be questioned in the case because both have died in separate accidents.

Dudukina said investigators did not find it necessary to check the circumstances of their deaths because “nothing criminal” was involved.

She said Gasanov died before the scheme was finished, causing problems for the others.

She also said Khlebnikov hid in Ukraine before being arrested in September and faces up to 10 years in prison if tried and convicted of large-scale fraud.

Hermitage denied Dudukina's allegations Monday, saying in a statement that the Interior Ministry was trying “blacken” Magnitsky's name.

Hermitage said Magnitsky had alerted the Interior Ministry, its Investigative Committee and

the Prosecutor General's Office about the theft of the stamps and papers from Makhaon, Parfenion and Riland three weeks before the 5.4 billion ruble embezzlement.

“Three weeks before the money was stolen from the budget ... Hermitage not only informed the law enforcement agencies about the future perpetrators, but also urged opening a criminal case against them,” the statement said.

Dudukina said she knew nothing about any alerts from Hermitage and said the Interior Ministry found out about the embezzlement on its own in September 2008.

Magnitsky, 37, was arrested in November 2008 and charged with tax evasion. He died of heart failure after repeatedly being denied medical treatment.

The Interior Ministry has managed to find about 7 percent of the 5.4 billion rubles in Krainy Sever and several other banks whose licenses have been canceled, and the money will be returned to the government, Dudukina said.

Dudukina said media outlets were incorrect in calling Magnitsky a lawyer. She showed a copy of his diploma and employment history papers saying he was an economist by training and worked mostly as an accountant and auditor, which means that he was aware of the operations carried out by Hermitage Capital.

Hermitage head William Browder, speaking by phone from London, denied Dudukina's claim that Magnitsky wasn't a lawyer, saying he had represented many clients in Russian courts on a variety of issues.

Dudukina also said investigators have established that Browder, a U.S.-British citizen who was barred entry to Russia on national security grounds in 2005, was aware of the embezzlement scheme.

“We hope that he will give evidence,” Dudukina said.

She said charges in a separate case might be dropped against Browder if he paid 500 million rubles in taxes claimed by investigators.

Browder said he did not plan to return to Russia or pay money to the government because he believes that he has lost enough. "The numbers being thrown around by the Interior Ministry are fictitious numbers which were simply used as a pretext to raid our offices and steal our companies," Browder said.

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