The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Transneft Accused of $4Bln Theft

By Howard Amos

November 17, 2010



A Transneft flag flying outside its Moscow office on Wednesday. “They stole. They overstated prices,” Navalny says. **Igor Tabakov**

The leaking of an official report suggesting $4 billion was stolen by Transneft insiders during the construction of a pipeline to the Chinese border was greeted Wednesday with the government offering congratulations to the state-controlled oil pipeline operator for completing the project.

"They stole. They overstated prices. They connived with contractors to cheat. Then they destroyed the documents," Alexei Navalny, a minority Transneft shareholder and lawyer, wrote on his blog, where he published what he described as a Transneft report requested by the Audit Chamber.

The Kremlin has made no comment about the matter.

Prime Minister Vladimir Putin's spokesman Dmitry Peskov said he could see "no necessity to comment on the blog."

"If there had been something going on, we would surely have been informed directly" by the Audit Chamber," he said, RIA-Novosti reported.

But the government did release a statement Wednesday congratulating Transneft on the completion of the East Siberia-Pacific Ocean pipeline, or ESPO, to the Chinese border.

The government "expressed its thanks" to Transneft "for a big investment in the development of cooperation in the field of energy between the Russia and China and the completion of the pipeline from Skovorodino to the Chinese border," according to the statement carried by RIA-Novosti.

The pipeline was initially proposed by Yukos as an independent project in 2001. Construction of the 4,857-kilometer pipeline started in April 2006.

Audit Chamber chief Sergei Stepashin said his office had to check the authenticity of Navalny's documents by comparing them with its own probe, conducted in 2008 and 2009, Vedomosti reported.

He said Transneft did misuse some funds for the ESPO pipeline, but the figures were not as large as the $4 billion claimed by Navalny.

"Let's wait for the Audit Chamber to report on its findings. Without its position, it will be hard to move anywhere," Public Chamber member Iosif Diskin said by telephone.

He praised Navalny's efforts to uncover possible misdeeds of Transneft management, saying Navalny was emboldened by Medvedev's hallmark campaign against corruption.

Federation Council Speaker Sergei Mironov called for an investigation into the embezzlement allegations Wednesday, RIA-Novosti reported.

PricewaterhouseCoopers, Transneft's auditor that was heavily criticized by Navalny for ignoring his warnings, denied wrongdoing. "We believe there are absolutely no grounds for such allegations, and we stand behind our work for OAO AK Transneft," PwC said in an e-mailed statement.

Transneft seemed to confirm the authenticity of the report, saying it was part of an initiative by the company's new leadership, Vedomosti reported.

Long-serving Transneft chief Semyon Vainshtok — a career oilman, former LUKoil vice president and a Putin protege — was removed from the company under a cloud in late 2007 after it emerged that he had paid out more to charity than in dividends to shareholders. He briefly headed Olympstroi, the state corporation funneling billions of dollars to construction projects for the 2014 Winter Olympics in Sochi.

Denis Yevstratenko, director of Prosperity Capital Management, a minority shareholder in Transneft preferred stock, said his company had no specific response but that "when money is stolen from a company, it is a very negative thing."

Eastern Capital, another fund manager and minority shareholder, refused to comment.

Prosperity Capital and Eastern Capital urged the government in August to sell 25 percent of Transneft's common stock. Yevstratenko said this would make it "a proper company," Bloomberg reported at the time. The calls were rejected by Transneft chief Nikolai Tokarev.

The government controls 100 percent of the ordinary voting shares in Transneft, while preferred shares are offered on the market.

One of the largest allegations of expropriated funds in Navalny's Transneft report is in the "baseless inflation of estimated project-exploration values" as a part of the initial phase of the ESPO pipeline. The amount alleged to have been stolen is more than 10 billion rubles.

"Everything is demonstrated with numbers and facts. Every section is signed by several experts," said Navalny, who posted scans of the document on his blog.

Navalny said he has sent letters to various law enforcement agencies, including the Prosecutor General's Office, asking them to open an embezzlement investigation into the company.

Navalny is well-known as a campaigner against big oil and gas companies, although none of his previous allegations have prompted official investigations.

While Navalny's revelations could create negative publicity for Transneft, there is unlikely to be any serious investigation, analysts said.

In the event of an investigation, Vainshtok, 63, might be called to testify as witness but little more, said Alexei Mukhin, head of the Center for Political Information, a Moscow think tank. If he were summoned, "it might be the beginning of a house of cards collapsing," Mukhin said, referring to the close links between the oil industry and the political elite.

Vainshtok moved to Israel in 2008. Written requests for comment to Israel Financial Levers Ltd., a property development company where Vainshtok works as a representative of the board of directors, went unanswered Wednesday.

He was replaced at Transneft by Tokarev, who worked with Putin in the presidential administration. "He believes that I can resolve complicated questions," Tokarev told Vedomosti in 2008 about his relationship with Putin.

Navalny's revelations about the ESPO pipeline might be in line with Tokarev's wishes; Tokarev harshly criticized the previous management soon after assuming his post.

“The first thing Tokarev did was distance himself from all of the problems of his predecessor — and this was the right move,” a senior Federation Council senator with ties to the oil industry told The Moscow Times. He spoke on condition of anonymity, citing the sensitivity of the matter.

He said it was difficult to predict whether an investigation would be opened and suggested that the leaking of the report was aimed at warning Vainstok that he “hadn't behaved correctly.” He did not elaborate.

Navalny, who first wrote about Transneft on his blog Tuesday, said he had spent months

investigating Transneft and received documents from some people within the company. "There are many people working in the Audit Chamber and Transneft, and not all of them are thieves," he said.

Vladimir Miliov, a former deputy energy minister and opposition politician, said the cooperation of officials within government bodies showed their dissatisfaction with large-scale corruption supported by some "mid-level bureaucrats."

Mukhin, the analyst, agreed that Navalny's actions might have been indirectly supported by government officials, describing Navalny as a "surfer catching a wave coming from circles close to the president."

Original url: https://www.themoscowtimes.com/2010/11/17/transneft-accused-of-4bln-theft-a3083