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U.K.-Russia Relations at Stake as EBRD Case Widens

By The Moscow Times

August 19, 2012



Yelena Kotova

Russia and the U.K. risk souring ties further as authorities are set to clash over potential money-laundering and bribery charges against a former Russian official at a London-based international lender.

Yelena Kotova, 57, Russia's former top representative at the European Bank for Reconstruction and Development , is sought by the U.K. for allegedly conducting a money-laundering operation in both Britain and the U.S. over several years, according to a person familiar with the British investigation, who declined to be identified because the probe is still under way. Kotova, who denies any wrongdoing, says she's unable to leave Russia because of a criminal inquiry by local authorities.

Relations worsened to a post-Cold War low after the 2006 assassination of dissident ex-KGB officer Alexander Litvinenko in London . In the Kotova case, the U.K. refused entry to Russian

detectives for more than a year. The Russian investigation may end up shielding Kotova rather than leading to a trial, said Mark Galeotti, a professor at New York University.

"Kotova has some kind of protection, in part because she was appointed," Galeotti, who studies transnational crime and Russian foreign affairs, said in a phone interview. "The Russian government had a direct hand in getting her that job, which is why it's embarrassing. On the Russian side, I'm picking up a sense of tension. There are people who are carrying out a serious and diligent investigation and there are people who are instead thinking of the wider political context."

Potential Charges

The City of London Police said Aug. 15 that it is working with the Crown Prosecution Service, which is responsible for filing charges. Russia is preparing to send detectives to the U.K. to interview current and ex-managers at the EBRD, according to the Interior Ministry in Moscow.

Kotova says she faces potential U.K. charges along with five other Russians who worked with her at the EBRD. Two of the five were questioned in the U.K. on several occasions in 2011, two others had already left the bank and a fifth individual plus Kotova returned to Russia in January 2011 just before criminal proceedings started.

"It's two different matters to be involved in activities outside the EBRD and to be involved in money-laundering," Kotova said in an interview in Moscow on Aug 13., adding that she had a real estate business in the U.S. and was administering a VTB project in the U.K. during her 2005-2010 job at the London-based bank. "I am absolutely innocent."

'Major Problem'

The Litvinenko murder remains a "major problem" between the U.K. and Russia, Prime Minister David Cameron said on the day he met President Vladimir Putin at the London Olympics this month. Strains between the two countries over the case have "not thawed and will not thaw," he said.

Russia has refused requests from Britain for the extradition of the chief suspect, ex-KGB bodyguard Andrei Lugovoi , and complained of receiving no assistance from the U.K. in its own investigation. Lugovoi denies any wrongdoing.

Kotova, a former World Bank and International Monetary Fund official and senior manager at Russian state banks VTB Group and Vneshekonombank, worked at the EBRD until December 2010. She and three other Russians at the bank had their diplomatic immunity revoked a month later at the request of both the U.K. and Russian governments. A separate criminal case for bribery was started in February 2011 against Kotova in Moscow.

"The British don't take the Russian investigation seriously, and maintain 'whatever they are doing, we will continue doing what we are doing'," Kotova said in the interview earlier this month.

$1 Million

Russia is investigating her for allegedly soliciting a $1 million bribe to secure approval for a $100 million EBRD loan to a company operating in Russia.

The London-based EBRD, set up by Western governments to help former communist countries make the transition to capitalism, started an internal investigation into current and former Russian EBRD staff in July 2010.

While the Russian government initially stood behind Kotova, saying in a Dec. 9, 2010 order that it had relieved the director of her position "at her own request," the Economic Development Ministry said Jan. 18 of last year that she had been fired amid a criminal probe into wrongdoing by her and three other Russian officials at the lender.

Still, there are doubts about whether she would face charges in Russia, according to Alexei Panin, a deputy director at the Moscow-based Center for Political Information.

Tough Manner

"There is very little satisfaction in Russia at the British accusations against Kotova, and so it's quite clear that at a political level, Russia is countering them in a tough manner," Panin said by phone last week.

The City of London Police said that suspects remain outstanding abroad and that it is continuing to work closely with the EBRD, Crown Prosecution Service and Russian authorities.

Russia protested in 2007 after a U.S. court convicted a former Russian diplomat to the United Nations on charges of money-laundering, accusing the Bush administration of using the investigation to pressure it. The ex-envoy, Vladimir Kuznetsov, who was accused of laundering funds obtained by another Russian UN diplomat, was allowed to return to Russia in 2008 to serve the remainder of his four-year sentence.

Kotova said the EBRD targeted her to reduce Russian influence at the bank.

Internal Conflict

"My situation resulted from a deep internal conflict between our office and the EBRD president and top management," she said. "Our office just carried out our work, which involved lobbying in the interests of clients from our country."

In 2009, as the global financial crisis engulfed the former Soviet satellites, the EBRD increased lending to European Union member states such as Hungary, Poland and Bulgaria as a credit shortage threatened to exacerbate their economic difficulties. Kotova said she had argued against the decision.

The EBRD says Russia's share of bank lending stood at 40 percent in the first six months of this year, close to the level in 2007. Total lending to Russia for the full-year should be close to 2011's approximately 3 billion euros ($3.7 billion), up from about 2.3 billion euros in 2007, it said.

"Mrs. Kotova is obviously facing very serious allegations," the EBRD said in a statement. "They are the subject of inquiries in both the United Kingdom and Russia, and we would hope that she would cooperate fully with those inquiries in order to establish the truth."

Property Assets

Kotova, who owns an apartment in downtown Moscow and another in London's upscale Mayfair district as well as houses in Brooklyn in New York City and in Washington , says she took out mortgages to buy her Washington and London homes.

"In Moscow, where I worked from 1998-2005, I earned a lot of money," she said. "I had six-digit salaries and six-digit bonuses and I had private businesses on the side."

U.K. police refused Kotova's December 2011 request to drop the case against her because of the parallel Russian inquiry, she says. In their response, the City of London Police said they had sent 40 pages of case material and 100 questions for Kotova to Russian investigators, according to the ex-EBRD official. The Russian side declined to provide assistance to the U.K. inquiry, said Kotova and her Moscow-based lawyer, Sergei Mirzoyev.

'Safe Haven'

"The British Isles remain a safe haven for many people guilty of serious crimes, partly linked to laundering of stolen funds," Deputy Prosecutor General Alexander Zvyagintsev said in an Aug. 7 interview with Interfax posted on the website of the Prosecutor General's office. "For a long time already, many Russian judicial requests are not being fulfilled in the U.K."

In September of last year, Russia urged Britain to extradite 43 of its citizens. It has unsuccessfully sought the extradition of Chechen separatist leader Akhmed Zakayev, one-time billionaire Boris Berezovsky and other businessmen accused of fraud, some of whom have received political asylum. The latest extradition case involves Bank of Moscow 's former chief executive Andrei Borodin.

"There is bad blood," said Galeotti, who said he doesn't believe there is "any political agenda" on the British side in the EBRD case. "This is just a straightforward investigation."

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