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$95.5M Fraud Case Seen as Damaging to Defense Minister

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Investigators suspect that the Soyuz Hotel was sold below market rate.

Investigators raided the office of a Defense Ministry agency Thursday in a $95.5 million fraud case that could signal that the Kremlin won't tolerate corruption in the armed forces as it significantly boosts defense spending.

The searches of Oboronservis, a holding company that manages state suppliers to the armed forces, could also tarnish the image of Anatoly Serdyukov, the powerful defense minister and an ally of President Vladimir Putin, analysts said.

Serdyukov, who chaired the company's board of directors until last year, arrived at its Moscow office after the Investigative Committee began its raid, a law enforcement source told RIA-Novosti.

"Investigators are conducting a search and seizure operation at Oboronservis in a criminal

case of property fraud," Investigative Committee spokesman Vladimir Markin said in a video published on the committee's website. "Preliminary findings suggest that the property fraud amounts to more than 3 billion rubles."

Serdyukov did not appear at a government meeting Thursday chaired by Prime Minister Dmitry Medvedev, Medvedev's spokesman, Natalya Timakova, told Interfax, adding that Serdyukov's absence was due to a planned meeting with Federation Council Speaker Valentina Matviyenko.

The Federation Council said in a news release that Serdyukov had traveled with Matviyenko on Thursday to visit a school for daughters of service members.

Five criminal cases have been opened into the fraudulent sale of real estate, land and shares owned by Oboronservis, the Investigative Committee said in a statement. Under the scheme, it said, Defense Ministry officials chose prestigious Oboronservis properties, including some in Moscow, spruced them up with state funds and then sold them at below-market prices, often with money stolen from Oboronservis.

The company's general director, Sergei Khursevich, told journalists that the company was assisting investigators in their search for documents related to the case but emphasized that the inquiry was ongoing.

"It would be premature to make any announcements regarding financial violations committed by the company until all the investigative actions are complete," Khursevich said, Interfax reported.

No suspects were identified by investigators except Yevgenia Vasilyeva, an aide to the defense minister and a member of Oboronservis' board of directors. Vasilyeva, whose first name investigators originally announced as Yelena, previously headed the Defense Ministry's property department.

Investigators said eight property transactions were under scrutiny, including the sale of the State Design Institute in central Moscow for 282 million rubles below market value. Three other buildings in the city center and the land under them were sold for about 700 million rubles, or at least 200 million rubles less than they were worth, they said.

Serdyukov said through a spokesman Thursday that allegations regarding the size of financial losses at the company were premature.

"Any public statements made before the end of the investigation about the extent of losses and the involvement of specific Oboronservis officials are nothing more than possibilities," Serdyukov said, Interfax reported.

According to its website, Oboronservis was created in 2007 as a holding company to oversee the work of several armed forces suppliers and service companies, including the lucrative housing department and firms responsible for repairing military aircraft, growing food for service members and building military facilities. Oboronservis is also in charge of the company that runs the Defense Ministry daily newspaper Krasnaya Zvezda.

Oboronservis' board of directors is headed by Alexander Shlyakhturov, once a powerful head

of the GRU military intelligence service. Its board includes former high-ranking government officials like Mikhail Mokretsov, the head of the Federal Tax Service from 2007 to 2010 and a former deputy defense minister. Serdyukov was head of the tax service from 2004 to 2007.

The raid of Oboronservis comes a day after Serdyukov gave a report to State Duma deputies on defense spending that was well-received even by opposition parties, Kommersant reported.

While Serdyukov is credited for carrying out large-scale transformation of the Russian armed forces, corruption is believed to run deep in the Defense Ministry. The situation is causing defense analysts and other observers to warn that the government must take measures to ensure that the $770 billion that Putin plans to spend on the armed forces over the next decade is spent properly.

“Defense Ministry officials did not show any interest in bringing order to this sphere [of military property management], and the ministry department responsible for it even tried to create all kinds of obstacles for us,” chief military prosecutor Sergei Fridinsky told Interfax on Thursday.

Alexander Perendzhiyev, head of the Association of Military Political Experts, said there clearly are corruption problems at Oboronservis, though many fraudulent practices were rooted out during Serdyukov's tenure.

“They continue to exist because it is always difficult to [eliminate them] at the very top,” said Perendzhiyev, who previously worked in the department responsible for military housing.

Military expert Alexander Golts said Wednesday that the raid might be directed against Serdyukov, noting that the only named suspect in the case, Vasilyeva, was close to the defense minister.

Tabloid Life News reported that Serdyukov was in Vasilyeva's apartment Thursday morning when investigators came looking for her.

“It is clearly a blow to Serdyukov, but the main question is who approved the attack,” Golts said, adding that under the Constitution, Serdyukov answers directly to Putin.

Pavel Felgenhauer, another military expert, told Izvestia on Thursday that while the raid on Oboronservis might have been sanctioned by the Kremlin, it is unclear whether it could lead to Serdyukov's resignation from his post as defense minister.

Kremlin-connected pundit Alexei Pushkov, who heads the Duma's International Affairs Committee, hinted that high-ranking officials could be targeted in the case.

“Defense Ministry officials are suspected of property fraud,” Pushkov wrote on Twitter. “For some reason, that is not surprising at all. I wonder how high up it will go.”

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