

Congressional Correspondence - 3 Wyden Letters - Request for Edits and Clearance

From: (b)(6)
To: Felicia (b)(6) "Swindells," (b)(6) "Thannhauser, Sara" (b)(6)
Cc: (b)(6)
Date: Tue, 10 Apr 2018 12:25:42 -0400
Attachments: Draft Treasury Response to RW Letters.docx (48.78 kB); Wyden on NRA.pdf (551.42 kB); Wyden on 2008 Palm Beach Trump Sale.pdf (1.49 MB); Wyden on Sec. 241 Report.pdf (287.68 kB)

Hello,

OGC has drafted a response to 3 letters received from Sen. Wyden. Both the letters and the response reference OFAC and FinCEN authorities. Please provide edits and clearance to the combined response to all three letters found at [Wyden on Sec. 241 Report, 2018-SE-0382](#) by OOB 4/16/2018.

V/r

(b)(6)

From: (b)(6)
Sent: Monday, April 09, 2018 5:46 PM
To: (b)(6) Cox, Alan T.; FinCEN (b)(6)
Cc: (b)(6)
Subject: Congressional Correspondence - Wyden on Sec. 241 Report - Request for Clearance

Hello,

Exec Sec is asking for TFI's clearance on OGC's response to various correspondence from Sen. Wyden. The 3 letters, and OGC's response can be found at [Wyden on Sec. 241 Report, 2018-SE-0382](#).

V/r

(b)(6)

From: ECM@ecm.treasury.gov [<mailto:ECM@ecm.treasury.gov>]
Sent: Monday, April 09, 2018 5:31 PM
To: (b)(6)
Subject: ExecSec CT: New Clearance: Wyden on Sec. 241 Report

You have been added as a clearer for the Wyden on Sec. 241 Report case.
Please use the following link to access the case. [Wyden on Sec. 241 Report, 2018-SE-0382](#)

To access the draft for review directly, please use the following link:

[Clearance Tracker Homepage](#)

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FW: Final Paper Draft

From: (b)(6)
To: (b)(6)
(b)(6)
Date: Mon, 30 Apr 2018 13:20:30 -0400

This is the paper that the AU students wrote- the results of which they will brief on Wed.

From: (b)(6)
Sent: Monday, April 30, 2018 1:01 PM
To: (b)(6)
Subject: Fwd: Final Paper Draft

Hi (b)(6)
here you go!

powerpoint to come separately. Also, do you also want the zip file of primary documents?

(b)(6)

----- Forwarded message -----
From: (b)(6)
Date: Mon, Apr 30, 2018 at 1:31 AM
Subject: Final Paper Draft
To: (b)(6)

(b)(6)

Please find attached the final draft of our paper. It has been rigorously proofread and is now hopefully error-free. Including our bibliography, it clocks in at sixty pages plus cover.

The appendix, which includes contracts and government document primary sources, has for convenience been split off into a separate document--it is 600-plus pages. The PDF is internally bookmarked so that the individual documents can be reached more quickly.

Additionally, there is a massive archive of all the additional primary document research materials we found, which is available as a compressed file of some 600 megabytes for delivery to treasury, if they are interested in perusing it, separated into folders by industry.

Best,

(b)(6)

P.S.: Sorry this didn't come to you earlier in the day. Midnight oil was burned to ensure highest quality.



BLACK SEA BILLIONS



RUSSIAN OLIGARCHS, MOSCOW MONEY, AND THE QUEST TO DEVELOP CRIMEA

Intelligence Analysis Practicum, American University, Spring 2018



CONTRIBUTING AUTHORS:

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BLACK SEA BILLIONS:

Russian Oligarchs, Moscow Money,
and the Quest to Develop Crimea

Executive Summary

This report argues that Russian oligarchs exploit the influx of investment in Crimea for financial and political benefits by using opaque financial infrastructures to obscure the financial record of their actions. These opaque financial infrastructures could allow Russian oligarchs and state institutions the ability to circumvent U.S. sanctions and gain foreign market influence by obscuring the source of their capital. Absent access to this infrastructure, oligarchs are unlikely to continue doing business in Crimea due to its unattractive economic environment. The research covered in this report focuses on changes in behavior of Russian oligarchs after the 2014 annexation of Crimea and examines how they benefit from their activities in the region.

Methodology

This report was created by American University graduate students at the School of International Service. The research for this report focuses on the changes in behavior by Russian oligarchs after the 2014 annexation of Crimea and examines how they benefit from their activities in the region. This report defines a Russian oligarch as an individual connected not only to wealth, but also to power. While there is no universal standard for what constitutes status as an oligarch, it is common to categorize an oligarch as being worth over a billion dollars.¹ This analysis is somewhat broader in scope, and will focus on both those individuals with and without significant

¹Igor Bosilkovski, "Treasury Department's Russia Oligarchs List Is Copied From Forbes," *Forbes*, 30 January 2018, <https://www.forbes.com/sites/igorbosilkovski/2018/01/30/treasury-departments-russias-oligarchs-list-is-copied-from-forbes/#45bb407d6825>.

individual-reported wealth. The decision to include individuals with less reported wealth was made to account for those oligarchs who have hidden their assets to avoid detection and exploit the current global financial system. This report also sought to identify the different categories of individuals within an oligarchy system such as oligarchs with familial connections or middle men and gatekeepers that shield access to oligarchs. To understand the scale and extent of potential illicit financial flows in and out of the Crimean peninsula, authors selected case studies from four different industries that experienced a large influx of investment after the 2014 annexation: construction, energy, real estate, and heavy industry.

The information gathered for this report was developed from open-source documents including government contracts, business records, reports by international and non-governmental organizations, news media, and interviews with subject-matter experts. The business records were critical in determining the vehicles oligarchs use to make money as well as the extent to which they went to hide their connections. Investigators leveraged the identifying numbers of the Russian Federal Tax Service—Tax ID Number (TIN/ИИИ) and/or Russian State Register Number (OGRN/ОГРН)—to track and verify official entities across multiple research platforms, when they were available, ensuring consistency when names may have differed. Hundreds of pages of relevant documents are available in a supplementary appendix. Materials not available in English were translated from Russian to English via native speakers or online Google translation services.

Map 1: Map of Projects Investigated in this Report

Selection of Sites Researched



The location of key Crimean development projects outlined in this report can be seen above.

The opaque financial structure of oligarchical business empires—and the nature of any illicit financial or political benefits oligarchs might receive—are intentionally hidden from public view. Many of the benefits attached to their projects are handled or discussed in private and will not be accessible via open-source research. The benefits are also not always clear; the involvement of an oligarch in Crimea may for instance result in an undetermined favor from Moscow in the future; alternatively, Crimean investment may be a way for an oligarch to “repay” the Russian state for a past benefit. The secret nature of these deals requires some assumed assessment made possible by tracking connections through mutual relationships with registrars/registration companies in Russia and Cyprus. While it is known that these companies hold shareholder records for other companies, it is not entirely clear why some companies choose to use their services, and what additional benefits they may provide.

I. Introduction and Economic Overview

Russian oligarchs exploit the influx of investment in Crimea for financial and political benefits by using shell and offshore holding companies to obscure the financial record of their actions. Oligarchs often use offshore holding companies to circumvent sanctions and strengthen Russian influence in foreign markets. This report begins with a general overview of the Crimean economy; subsequently, prominent government projects in the construction, tourism, energy, real estate, and heavy industry sectors will be discussed. Following these case studies are a series of concluding recommendations aimed at curtailing some of the common patterns of oligarch behavior uncovered in this report.

Crimea’s Poor Economic Climate

The Crimean peninsula is not an attractive location for investment, partially due to U.S. sanctions. Despite this fact, Crimea is experiencing an influx of billions of dollars in investment from Russian oligarchs and companies. Prior to annexation, Crimea’s economy was weak, but it has deteriorated further since annexation occurred. Before 2014, Crimea’s main economic activities centered around tourism, agriculture, and industrial production. Reliable economic data for post-annexation Crimea is difficult to find due to Russia’s lack of transparency and reporting. What economic data is available for Crimea is often biased, incorrect, and/or manipulated. The statistics and figures provided in this section come from a variety of sources with varying degrees of reliability and as such should not be treated as gospel. No official statistics were provided by either the Russian, Crimean, or Ukrainian governments. According to the World Bank website, “the Ukrainian Statistic Committee excludes Crimea from official statistics and has also adjusted historical data accordingly.”²

² World Bank, “Q&A: World Bank Assistance to Ukraine: Qimiao Fan, World Bank Country Director for Belarus, Moldova, and Ukraine, talks about the World Bank Group’s support to Ukraine,” *World Bank Speeches & Transcripts*, 25 August 2015, <http://www.worldbank.org/en/news/speech/2015/08/25/world-bank-assistance-to-ukraine>.

Graph 1 on the page below illustrates Crimea's 2016 Gross Regional Product, pulled from the Federal State Statistics Service for the Republic of Crimea and the City of Sevastopol. All numbers were converted to current U.S. Dollars. Table 1 provides a comparative snapshot of Crimea's economy a year before and after its annexation, showing shifts in key economic measures for Crimea.³ Following the annexation, several countries including the U.S., Canada, and Australia, imposed sanctions against Russia, which impacted all aspects of the Russian and Crimean economy.^{4 5} The EU and Japan have also imposed sanctions against Russia.^{6 7} In general, the sanctions prohibit the sale, supply, transfer, or export of goods and technology to Russia, prohibitions which extend to Crimea as well. Additionally, the sanctions imposed on Russia likely halted and prevented foreign direct investment (FDI) into the peninsula. According to RT, the English language Russian state-supported news agency, half of Crimea's FDI came from Europe and Russia—at approximately 25% each before the annexation.⁸

One of Crimea's major industries is tourism. When sanctions were imposed, the flow of visitors to the area became severely restricted, and the tourism industry suffered a significant blow. Crimea's tourism industry is divided into two components: health resorts (i.e. sanatoriums) and small resorts and rental properties. Before the annexation, Crimea received approximately 6 million visitors annually; in 2014, this number decreased to 3.8 million, and declined further to 1.5 million in 2015.⁹ Today, only organized tour groups from Russia who have received special vouchers patronize the health resort component of the tourism sector.¹⁰ The small resort/rental property component previously relied heavily on independent tourists. Prior to 2014, the peninsula was a popular summer destination for Ukrainians, who made up 67.4% of Crimea's annual tourists.¹¹ Since then, the number of Ukrainian visitors has dwindled, and Western companies have stopped organizing tours to Crimea.¹² A major barrier discouraging tourists is the difficulty of obtaining access to the area. In addition to complicated official travel issues (visas, passports, immigration,

³ Table 1 shows Crimea's economic status based on different sources with varying degrees of credibility.

⁴ Government of Canada, "Special Economic Measures (Ukraine) Regulations," Justice Laws Website, <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2014-60/page-1.html>

⁵ Australian Government, "Australia and Sanctions," Australian Government, <http://dfat.gov.au/international-relations/security/sanctions/Pages/consolidated-list.aspx>; "Australia Imposes Sanctions on Russians After Annexation of Crimea from Ukraine," ABC News, 19 March 2014, <http://www.abc.net.au/news/2014-03-19/australia-sanctions-russia-ukraine/5331826>.

⁶ European Union, "Declaration by the High Representative on Behalf of the European Union on the Alignment of Certain Third Countries with the Council Decision 2014/145/CFSP Concerning Restrictive Measures in Respect of Actions Undermining or Threatening the Territorial Integrity, Sovereignty and Independence of Ukraine," European Union, 11 April 2014, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/cfsp/142174.pdf; Andrew Rettman, "EU Sanctions Add to Putin's Crimea Headache," EU Observer, 18 December 2014, <https://euobserver.com/foreign/12698>.

⁷ "Japan Imposes Sanctions Against Russia over Crimea Independence," Fox News World, 18 March 2014, <http://www.foxnews.com/world/2014/03/18/japan-imposes-sanctions-against-russia-over-crimea-independence.html>.

⁸ "Crimea's Economy In Number and Pictures," RT, 18 March 2014, <https://www.rt.com/business/crimea-economy-referendum-results-102/>.

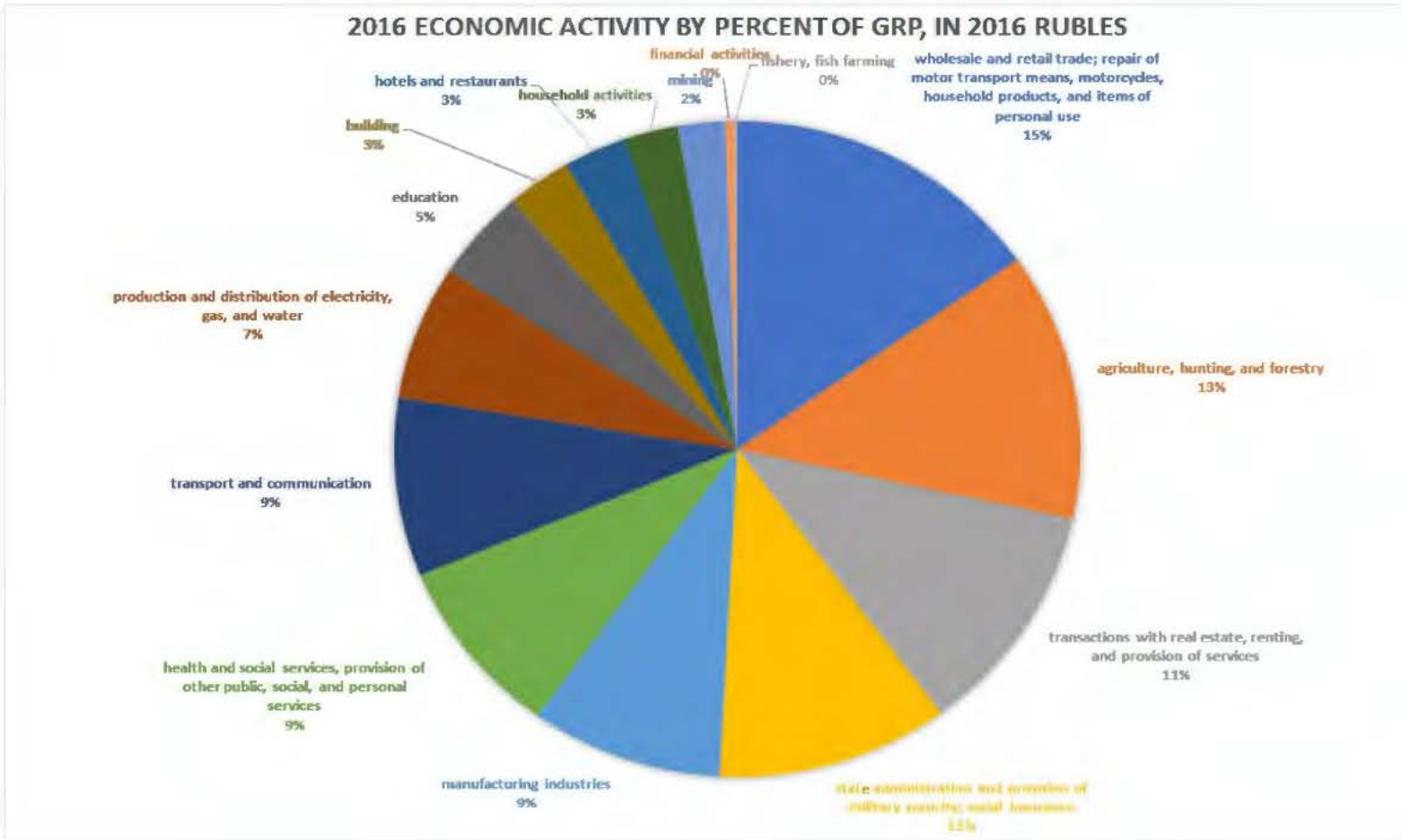
⁹ Sheril Retson, "Crimea is Becoming a Russian Money Pit," World Policy, 24 October 2016, <https://worldpolicy.org/2016/10/24/crimea-is-becoming-a-russian-money-pit/>.

¹⁰ Olena Makarenko, "Crimea's Economy. When Russia's Words and Figures Don't Meet," Euromaidan Press, 17 May 2016, <http://euromaidanpress.com/2016/05/17/crimeas-economy-when-russias-words-and-figures-dont-meet/>.

¹¹ *Ibid.*

¹² Sheril Retson, "Crimea is Becoming a Russian Money Pit," World Policy, 24 October 2016, <https://worldpolicy.org/2016/10/24/crimea-is-becoming-a-russian-money-pit/>.

Graph 1: Crimea's 2016 Gross Regional Product (GRP)



Source: Federal State Statistics Service for the Republic of Crimea and the City of Sevastopol¹³

¹³ Federal State Statistics Service for the Republic of Crimea and the City of Sevastopol, "ВАЛОВОЙ РЕГИОНАЛЬНЫЙ ПРОДУКТ РЕСПУБЛИКИ КРЫМ ПО ВИДАМ ЭКОНОМИЧЕСКОЙ ДЕЯТЕЛЬНОСТИ," <http://crimea.gks.ru/wps/wcm/connect/rosstat ts/crimea/ru/>, (See Appendix A).

etc.), visitors can currently only enter Crimea through Russia via plane or ferry. Previously, tourists were able to travel to Crimea easily via bus and train transportation from Ukraine, but these connections were closed shortly after the annexation.

Crimea's agricultural sector bolstered its economy when it was still part of Ukraine, but it was not a major part of Ukraine's overall agricultural yield. Crimea additionally accounted for 30.3% of Ukraine's wool production, 23.7% of its grape yield, and 5.7% of its berry and fruit crops.¹⁴ The peninsula received most of its food products from mainland Ukraine before the annexation. Now it relies on support from Russia to fulfill its food demands. Before the annexation, Western oil and gas companies drilled Crimea's onshore and offshore natural gas fields. After sanctions were imposed, the natural gas business was restricted to Russian companies only.¹⁵

Table 1: Available Comparative Economic Indicators

Available Indicators	
2013	2015
Export of goods and services	
\$905 mn	\$79.3 mn
\$849.30 mn	\$73.50 mn
Import of goods and services	
\$1,100 mn	\$100 mn
\$976.70 mn	\$93.30 mn
Unemployment	
1.80%	9.50%
5.40%	6.30%
Amount of tourists	
6 mn	1.5 mn
Not Listed	2.5 mn (2014)

Key Sources:¹⁶

Ankasam, Turkish Source	Euromaidan Press, Pro-Ukrainian Source
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The above table compares key economic indicators in 2013—the last full year of stable Ukrainian control—with 2015, the first full year of stable Russian control.

¹⁴ Olena Makarenko, "Crimea's Economy. When Russia's Words and Figures Don't Meet," Euromaidan Press, 17 May 2016, <http://euromaidanpress.com/2016/05/17/crimeas-economy-when-russias-words-and-figures-dont-meet/>.

¹⁵ The energy section contains further information on this industry.

¹⁶ Riana Teifukova, "The Economic Effect of the Crimean Annexation," Ankasam Ankara Center for Crisis and Policy Studies, 5 May 2017, https://ankasam.org/en/economic-effect-crimean-annexation/#_edn1;

Olena Makarenko, "Crimea's Economy. When Russia's Words and Figures Don't Meet," Euromaidan Press, 17 May 2016, <http://euromaidanpress.com/2016/05/17/crimeas-economy-when-russias-words-and-figures-dont-meet/>.

To help alleviate the economic situation in Crimea, Russia invests heavily in the peninsula's infrastructure. The Russian government repaired roads, modernized hospitals, and improved schools. The most expensive and ambitious state-funded project is the ongoing construction of the US\$4.5 billion Kerch Strait Bridge, planned to span some eighteen kilometers.¹⁷ Moscow hopes the bridge will reopen Crimea to tourism and alleviate export/import transportation problems. Russia has also subsidized an increase in wages and pensions aimed at stimulating the economy, but this effort was short-lived because the prices of goods rose as well.¹⁸ According to Riana Teifukova, an economist and writer for the Anakarka Center for Crisis and Policy Studies, "the increase in price of food products and the depreciation of the ruble quickly affected the consumer opportunities of the Crimean population."¹⁹ Inflation is an ongoing issue in the region.

Crimea is not an obviously attractive environment in which to invest, yet the Russian government has persistently tried to prove otherwise. During a live call-in show, Russian President Vladimir Putin claimed that "Russia has climbed out of recession despite the continuing Western sanctions" and insisted "that the [Western] measures have only made the country stronger."²³ Yet based on available information, Crimea is more economically isolated now than it was before the annexation.

The Annexation of Crimea^{20 21 22}

On February 21, 2014 the formation of a new government caused Ukraine's pro-Russian president Viktor Yanukovich to flee to Russia. On February 23, pro-Russian protesters rallied against the new Ukrainian government in Crimea. On the 27, pro-Russian armed men seized government buildings in Crimea, and unmarked uniformed forces (likely Russian Special Forces) began taking key locations throughout Crimea.

On March 1, 2014, Russian President Vladimir Putin received approval from the upper house of Russia's parliament for a military invasion—it officially began on March 2, 2014, when Russian troops flooded into Crimea. On March 16, a sham referendum was held, with reportedly 95% of Crimean voters supporting annexation. The next day, the United States and Europe froze assets and placed visa bans on those individuals involved with the annexation. On March 18, Putin officially signed a treaty annexing Crimea into the Russian Federation.

¹⁷ Dmitry Sudakov, "Billions and billions for Crimea: Where will they go?," 31 August 2017, http://www.pravdareport.com/russia/economics/31-08-2017/138557-crimea_billions-0/.

¹⁸ Wea Fischer and Jadwiga Rogoza, "Crimea, One Year After the Annexation: The End of the Honeymoon?" OSW, <https://www.osw.waw.pl/en/publikacje/analyses/2015-03-25/crimea-one-year-after-annexation-end-honeymoon>.

¹⁹ Riana Teifukova, "The Economic Effect of the Crimean Annexation," Ankasam Ankara Center for Crisis and Policy Studies, 5 May 2017, https://ankasam.org/en/economic-effect-crimean-annexation/#_edn1.

²⁰ "Timeline: Ukraine's political crisis." Aljazeera. 20 September 2014, <https://www.aljazeera.com/news/europe/2014/03/timeline-ukraine-political-crisis-201431143722854652.html>.

²¹ David Ignatius, "David Ignatius: Russia's military delivers a striking lesson in Crimea," 2014, https://www.washingtonpost.com/opinions/david-ignatius-russias-military-delivers-a-striking-lesson-in-crimea/2014/03/18/c1273044-aed7-11e3-9627-c65021d6d572_story.html?noredirect=on&utm_term=.6d8d66749ca3.

²² "Timeline: Ukraine's political crisis." Aljazeera. 20 September 2014, <https://www.aljazeera.com/news/europe/2014/03/timeline-ukraine-political-crisis-201431143722854652.html>.

²³ Associated Press, "Putin: Sanctions Made Russia Stronger," Politico, 15 June 2017, <https://www.politico.com/story/2017/06/15/putin-sanctions-made-russia-stronger-239578>; Jonah Shepp, "Putin Says Economic Sanctions Are Making Russia Stronger - He's Not Totally Wrong," Politico, 20 June, 2017, <http://nymag.com/daily/intelligencer/2017/06/putin-says-sanctions-are-helping-russia-he-might-be-right.html>.

Many banks have chosen to involve themselves in projects intended to prop up Crimea, despite the poor investment climate. The funds for these projects come primarily from Russian-owned and/or controlled banks. Some of these banks and financial institutions have opened or remained open in Crimea even after the imposition of U.S. sanctions. Financial institutions that have not opened physical offices in Crimea are there supporting government-sponsored projects by acting as financial vehicles through which money is transferred between the companies involved or by providing loans. These financial institutions are a key element making it possible for Russian oligarchs to develop Crimea.

Prior to the 2014 invasion and occupation, there were numerous Ukrainian and international banks operating within the Autonomous Republic of Crimea. A few of the prominent banks in the region included JCB Pivdennyi (Пивденный), JSC Kredobank (Кредобанк), Oshchadbank (Ощадбанк), and Privatbank (Приватбанк), which had 337 branches throughout Crimea.²⁴ ²⁵ After the annexation of Crimea by the Russian Federation, the Ukrainian currency was banned and the financial market surrounding the country collapsed.²⁶ In response to the Russian takeover, Kiev ordered all Ukrainian banks to leave the area, resulting in the closure of 41 banks.²⁷

After the occupation, Ukraine and most international businesses either withdrew from Crimea or were forced out, leaving behind vast assets and property. Russia was quick to seize the assets and property in order to transform them into Russian businesses and among these were Russian banks.²⁸ Although several Russian banks have opened, there are only a few that facilitate economic growth and investment in the area. The three main banks supporting Russian investments in Crimea are Sberbank (Сбербанк), Bank Rossiya (Банк Россия), and Russian National Commercial Bank [(Российский Национальный Коммерческий Банк), alternatively RNCB (PHKB)]. These three banks are intermediaries through which financial transactions are made, including the distribution of loans to fund projects that will prop up Crimea.

²⁴ Evgeny Zhuravlev and Elena Nizovaya, "Controversial Russian Bankers Target Crimea," OCCRP, 3 June 2015, <https://www.occrp.org/en/investigations/4001-controversial-russian-bankers-target-crimea>.

²⁵ "Company Detail: Russian National Commercial Bank PJSC," EIRIS Foundation, <http://www.businessinoccupiedlands.org/search/?search=235&company=262&mode=organization>.

²⁶ Richard Galpin, "Russians Count the Cost a Year After Crimea Annexation," BBC News, 20 March 2015, <http://www.bbc.com/news/world-europe-31962156>.

²⁷ Andrew Foxall, "Guest post: How Did Russia's RNCB Avoid Ukraine-Related Sanctions for So Long?" Financial Times, 18 March 2015, <https://www.ft.com/content/5d3e5ef4-9c80-3ee3-8768-67b72771e563>; Steve Stecklow, Elizabeth Piper, Oleksandr Akymenko, "Special Report: Crimean Savers Ask: Where's Our Money?" Reuters, 20 November 2014, <https://www.reuters.com/article/us-ukraine-crisis-banks-specialreport/special-report-crimean-savers-ask-wheres-our-money-idUSKCN0J40FJ20141120?irpc=932>.

²⁸ "Laughing All the Way to the Bank," The Economist, 20 November 2014, <https://www.economist.com/news/europe/21633949-russias-seizure-ukrainian-banks-crimea-still-wreaking-havoc-locals-finances-laughing-all>.

II. Construction

Certain Russian oligarchs are benefiting financially from construction projects that support the Russian Federation's strategic development plan in Crimea. Since the annexation in 2014, the Russian Federation has made development in Crimea a national priority and has implemented robust construction initiatives geared towards tourism, engineering, transportation, and social infrastructure development.²⁹ There are currently numerous high-value construction projects in Crimea from which Russian oligarchs could potentially derive political and financial benefits. Some of these projects were featured at the Yalta International Economic Forum (YIEF), an annual conference sponsored by the Government of the Republic of Crimea and the Yalta International Economic Forum Fund. The YIEF brings together high-level Russian officials, international businesspeople, and also economists and representatives of large business entities to discuss economic development in Crimea and showcase investment opportunities.³⁰ The projects featured at YIEF received publicity and official promotion from government officials and channels commending the companies who were awarded the contracts.^{31,32}

Moscow sought to portray the development of Crimea as a priority at the highest levels of the Kremlin. President Putin personally signed welcome letters to the Yalta Forum attendees, and has more than once addressed the conference by video, which was perhaps a significant political inducement to investment among oligarchs whose fortunes may be dependent on Putin's good graces.³³ The event is a good indicator of the Kremlin's official growth strategy in Crimea and serves as a venue for showcasing all the investments and developments planned for the Republic. Investigative journalist, Misha Friedman, who has written extensively on the Russian State's action stated: "...[the] Kerch Strait Bridge [sic], new Simferopol Airport and other infrastructure projects are only happening because Russia annexed Crimea from Ukraine."³⁴

The construction industry plays a large role in the overall economic development of Crimea, and this report seeks to identify the opaque financial infrastructures used in financing these construction projects, through which Russian oligarchs may benefit financially or politically. Since the economic development of Crimea is a continuous effort, and many of these projects are ongoing, the upcoming 2018 YIEF conference should provide a valuable indicator of future plans for Crimea.

²⁹ "Strategy for Socio-Economic Development of the Republic of Crimea," Investment Portal of the Republic of Crimea, 2015, [Invest-in-crimea.ru/en/основной-концепт/strategy-socio-economic-development-republic-crimea](http://invest-in-crimea.ru/en/основной-концепт/strategy-socio-economic-development-republic-crimea).

³⁰ "About the Forum," Yalta International Economic Forum Foundation, forumyalta.com/pages/about/5/.

³¹ "Sergei Ivanov attended 3rd Yalta International Economic Forum," President of Russia: Events, April 21, 2017, <http://en.kremlin.ru/events/administration/54358>;

³² Sergei Fedichev. "Abkhazia's Economy Minister Agdur Ardzindba (Right) at a panel session titled 'Crimea: Strategy 2030' as part of the 2017 Yalta International Economic Forum, at the Myria Resort Hotel." Getty Images. <https://www.gettyimages.it/detail/fotografie-di-cronaca/abkhazias-economy-minister-adgur-ardzinba-at-a-fotografie-di-cronaca/670699652#/abkhazias-economy-minister-adgur-ardzinba-at-a-panel-session-titled-picture-id670699652>.

³³ "Greetings to 3rd Yalta International Economic Forum," President of Russia: Events, 20 April 2017, <http://en.kremlin.ru/events/president/news/54352>

³⁴ Michael (Misha) Friedman, email message to author, 10 April 2018.

This year's forum took place between April 19 to 22 with an estimated 3,000 attendees from more than 60 countries.³⁵

The Kerch Strait Bridge

Stroygazmontazh (Стройгазмонтаж) won the largest government contract in Crimea in 2015: the right to construct the Kerch Strait bridge (also known as the Crimean Bridge).³⁶ This contract is a massive infrastructure project designed to connect the Crimean and Taman peninsulas by road. It is planned to be approximately 19 kilometers long, spanning

over 7 kilometers of water.³⁷ The bridge will consist of two parallel structures, both a highway and a railway, with an anticipated traffic capacity of up to 40 thousand vehicles and 47 train pairs per day.³⁸ The construction of the bridge is ongoing, with completion currently estimated for 2019.³⁹

Successfully completing the Kerch bridge will be a significant engineering feat, requiring sophisticated construction capacity. According to the Moscow Times, two of Putin's closest associates—Gennady Timchenko and Arkady Rotenberg—owned companies with adequate resources and capital required to construct the bridge.⁴⁰ Due to the complicated nature of the project, Timchenko declined to participate in the bridge construction project; as a result, Rotenberg took on the US\$4.5 billion endeavor.⁴¹ According to a professor of economics and director of the Moscow-based Center for Post-Industrial Studies, Vladislav Inozemtsev, the Chinese would have been able to construct the bridge at a much lower price.⁴² For comparison purposes, China has



³⁵ "Over 3,000 Participants from 60 States to Attend Yalta Int'l Economic Forum," Sputnik News, <https://sputniknews.com/russia/201803131062493982-yalta-crimea-economic-forum/>.

³⁶ Federal Treasury. Unified Information Systems in the Field of Procurement, <http://zakupki.gov.ru>.

³⁷ "The Crimean Bridge (transport crossing over the Kerch Strait)," Stroygazmontazh, www.oocsgm.com/company/structure/.

³⁸ "The Crimean Bridge (transport crossing over the Kerch Strait)," Stroygazmontazh, www.oocsgm.com/company/structure/.

³⁹ "The Crimean Bridge (transport crossing over the Kerch Strait)," Stroygazmontazh, www.oocsgm.com/company/structure/.

⁴⁰ Daria Litvinova, "Why Kerch May Prove a Bridge Too Far for Russia," *The Moscow Times*, 17 June 2016, <https://themoscowtimes.com/articles/why-kerch-may-prove-a-bridge-too-far-for-russia-53309>.

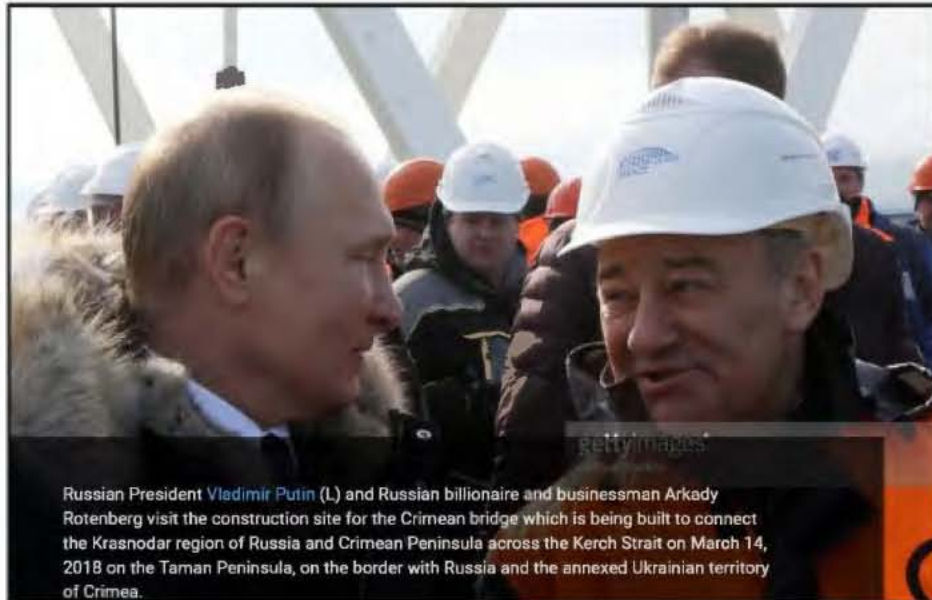
⁴¹ Halya Coynash, "Russia's Crimea Bridge Could Collapse Anytime," *The Atlantic Council*, 10 January 2017, <http://www.atlanticcouncil.org/blogs/ukrainelert/russia-s-crimea-bridge-could-collapse-anytime?tmpl=component&print=1>.

⁴² Alexander Panin, "Kerch Bridge To Crimea May Become Russia's Link To The East," *The Moscow Times*, 5 May 2014, <https://themoscowtimes.com/articles/kerch-bridge-to-crimea-may-become-russias-link-to-the-east-35058>

recently completed the four lane Beipanjiang Bridge—the world’s highest bridge, spanning 1.34 kilometers 565 meters above a valley gorge. According to the International Business Times, the bridge cost about US\$140 million to build. If a 19 km (the same length as the Kerch Strait Bridge) version of the Beipanjiang Bridge was built, it would cost roughly US\$1.96 billion, which is much

less than the cost of the US\$4.5 billion Kerch Bridge.⁴³

Moreover, Georgy Rosnovsky, the creator of two Ukrainian Kerch Strait bridge designs, believes that the bridge could collapse. Risk factors associated with the project include its planned construction over a seabed comprised largely of silt, the risk of earthquakes, seasonal ice floes, and concerns that the bridge’s height will impede boat traffic; however, the project continues to be a priority for Putin.^{44 45} A 2016 NPR



Russian President Vladimir Putin (L) and Russian billionaire and businessman Arkady Rotenberg visit the construction site for the Crimean bridge which is being built to connect the Krasnodar region of Russia and Crimean Peninsula across the Kerch Strait on March 14, 2018 on the Taman Peninsula, on the border with Russia and the annexed Ukrainian territory of Crimea.

report states that Putin allocated more funds for the bridge even in the midst of a Russian financial crisis.⁴⁶ Putin has made multiple appearances with Arkady Rotenberg at the Kerch Bridge construction site, and threatened to “hang [construction] managers” if the Kerch Bridge was not completed in 2018, a year earlier than its actual 2019 completion estimate.^{47 48 49}

⁴³ Alexandra Suarez, “Largest Construction Projects In The World: China Opens New Beipanjiang Bridge To Much Fanfare,” International Business Times, 29 December 2016, <http://www.ibtimes.com/largest-construction-projects-world-china-opens-new-beipanjiang-bridge-much-fanfare-2466977>.

⁴⁴ Halya Coynash, “Russia’s Crimea Bridge Could Collapse Anytime,” The Atlantic Council, 10 January 2017.

<http://www.atlanticcouncil.org/blogs/ukrainealert/russia-s-crimea-bridge-could-collapse-anytime?tmpl=component&print=1>.

⁴⁵ Neil MacFarquhar and Ivan Nechepurenko, “Putin’s Bridge to Crimea May Carry More Symbolism Than Traffic,” The New York Times, 11 November 2017, <https://nyti.ms/2hrHNy0>.

⁴⁶ Corey Flintoff, “Russia’s Crimea Bridge Project Beset By Engineering Worries And Labor Woes,” NPR, 16 August 2016.

<https://www.npr.org/sections/parallels/2016/08/16/490245830/russias-crimea-bridge-project-beset-by-engineering-worries-and-labor-woes>.

⁴⁷ Mikhail Svetlov, “Russian President Vladimir Putin Visits The Crimean Bridge,” Getty Images, 14 March 2018

https://www.gettyimages.com/event/russian-president-vladimir-putin-visits-the-crimea-bridge-775141283?rgwc=1&esource=AFF_GI_IR_Skimbit%20Ltd.10078&asid=Skimbit%20Ltd.&cid=GI#russian-president-vladimir-putin-and-russian-billionaire-and-arkady-picture-id931982854

⁴⁸ Mikhail Svetlov, “Kerch Bridge Construction,” Getty Images, 18 March 2016 <https://www.gettyimages.com/detail/news-photo/russian-president-vladimir-putin-and-businessman-arkady-news-photo/516339324#/russian-president-vladimir-putin-and-businessman-arkady-rotebreg-by-picture-id516339324>.

⁴⁹ Alikhsandr Valiyev, “‘Like Being A Slave’: Workers On Russia’s Bridge To Crimea Report Abuse, Deceit,” Radio Free Europe/Radio Liberty, 7 August 2016, <https://www.rferl.org/a/russia-crimea-kerch-bridge-workers-abuse-unpaid/27906011.html>.

The bridge project has caused controversy in the region because the Russian Transport Ministry has had to close down the Kerch Strait for several days to construct pieces of the bridge, and there are publicized plans to do so again.⁵⁰ This adversely affects Ukraine's economy by halting water transport in the strait and forcing massive lines of cargo vessels to a standstill.⁵¹ The Kerch Strait bridge is undoubtedly intended to ease the current isolation of Crimea, bolster the tourism industry as well as commercial shipping, and reduce economies of scale for the Crimean market. The project is a key milestone in the overall efforts to prop up Crimea's economy. Putin's emphasis on the completion of the bridge and its potential impact on Crimea's economy imply that this project is of great importance to Russia's strategy for developing Crimea.

Stroygazmontazh [Стройгазмонтаж] (SGM Group)

The Russian Federation's Ministry of Transport awarded Stroygazmontazh status "as the only contractor responsible for designing and building the transport crossing over the Kerch Strait."⁵² Stroygazmontazh⁵³ (SGM Group) is one of the largest construction and engineering firms in Russia, with major involvement in the oil and gas industry.⁵⁴ Stroygazmontazh is 100% owned by Arkady Rotenberg (Аркадий Ротенберг) and is managed by Chief Executive Officer Sergey Garaev.⁵⁵

The Kerch Strait works procurement will be performed by the Taman Federal Highway Administration of the Federal Road Agency. In addition to SGM, Arkady Rotenberg also owns the majority share of SMP bank.⁵⁶ Mosoblbank Moscow (Мособлбанк), a subsidiary of SMP Bank, was the vehicle through which money was transferred on SGM's side of the contract between SGM and the Taman Federal Highway Administration of the Federal Road Agency.⁵⁷ Mosoblbank is included in the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC)'s Specifically Designated Nationals and Blocked Persons (SDN) list. Effectively, Mr. Rotenberg is using his own bank to fund his own project with money received directly from the Russian state. Such a high degree of control over these financial transactions provides opportunities to minimize oversight and maximize privacy and protection—or perhaps to quietly pocket money. The bulk of Arkady's income "derives from state contracts, mostly to build thousands of miles of roads and natural-gas

⁵⁰ Veronika Melkozerova, "Russia's Illegal Crimean Bridge Construction Will Cost Ukraine," Kyiv Post, 31 August, 2017, <https://www.kyivpost.com/ukraine-politics/russias-illegal-crimean-bridge-construction-will-cost-ukraine-video.html>.

⁵¹ Ibid.

⁵² "Regarding Choosing a Sole Contractor for Design and Construction of the Transport Crossing over the Kerch Strait," Stroygazmontazh, <http://www.oosgm.com/>.

⁵³ Subsidiaries of SGM Group include SGM-Most, JSC Lengazspetsstroy, JSC Krasnodargazstroy, JSC Volgogaz, OJSC Volgogradneftemash, OOO SSK Gazregion, (see Appendix A).

⁵⁴ "SGM Group of Companies," Stroygazmontazh, www.oosgm.com/company/structure/.

⁵⁵ Rusprofile entry "OOO 'Stroygazmontazh', LLC 'SGM,'" <https://www.rusprofile.ru/id/133458>.

⁵⁶ "Putin's friend Arkady Rotenberg reportedly owns \$60m-worth yacht," Crime Russia, 20 Feb 2018, <https://en.crimerrussia.com/oligarchs/putin-s-friend-arkady-rotenberg-owns-60m-worth-yacht/>.

⁵⁷ "Addendum No. 9 to the State Contract of February 17, 2015 No 2," SGM Contract Translation, 24 Dec 2015; "Supplementary Agreement No.3 to the State Contract No.2 of 17 February 2015," SGM Contract Translation, 30 June 2015. (See Appendix B).

pipelines and other infrastructure projects.”⁵⁸ Although the bridge itself is not a money-making investment in the long term (it is not planned to be a toll road), it is highly likely that Arkady has taken on the Kerch Strait bridge project with the intent to profit immediately from state contracts, and it is also possible he means to perform a personal favor to Putin after other companies declined to take on the project.⁵⁹ By using his own bank, he has less external oversight from regulatory entities when receiving the income from this project and the corresponding state contracts.

The Ministry of Transport is also using two other Russian banks—Sberbank and Southern Main Branch of the Central Bank of the Russian Federation (Bank of Russia, Банк России)—as a vehicle for transferring money from the Ministry of Construction to Stroygazmontazh. Sberbank has branches in several countries, but it refuses to open a branch in Crimea out of fear that it will incur additional sanctions.⁶⁰ Herman Gref (Герман Греф), the bank’s President, has argued that the bank has already suffered from sanctions and opening a branch in Crimea would only cripple the bank’s activities further.⁶¹ Gref has close ties to President Putin due to his time spent as the Economy Minister and personal economic advisor. Although the bank refuses to open a branch in Crimea, it has been involved in the financial transactions for both the Kerch Strait bridge and the addition of a terminal at Simferopol airport.

Both Rotenberg and Gref have well-known ties to Putin. However, SGM and Sberbank are not the only companies involved in the Kerch Strait project with connections to the Kremlin. Elvira Nabiullina (Эльвира Набиуллина) is the Governor of the Bank of Russia, the main bank of which Southern Main Bank of the Central Bank of the Russian Federation is a subsidiary. The Southern Main Bank of the Central Bank of the Russian Federation is also a vehicle through which money is transferred from the Ministry of Construction to Stroygazmontazh. Nabiullina served as the Minister of Economic Development in 2008 and was the Aide to the President of the Russian Federation from 2012-2013.⁶²

Glavgosexpertiza (Главгосэкспертиза) is a non-profit organization that exercises the powers of the Ministry of Transport by executing works through surveys and appraisals and also engineering survey results.⁶³ Glavgosexpertiza was used for documenting the works and services that were assigned to SGM.⁶⁴ The organization is run by Igor Manylov, a former Russian State Secretary and Deputy Minister of Economic Development. This company was put under U.S. sanctions in 2016 for their involvement in the Kerch Bridge.⁶⁵ Interestingly, this non-profit takes on

⁵⁸ Joshua Yaffa, “Putin’s Shadow Cabinet and the Bridge to Crimea,” *The New Yorker*, 29 May 2017, <https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea>.

⁵⁹ Ibid.

⁶⁰ Andrei Skvarsky, “Sberbank to stay out of Crimea, CEO reiterates,” *Emerging Markets*, 13 June 2017, <http://emergingmarkets.me/sberbank-stay-crimea-ceo-reiterates/>.

⁶¹ Ibid.

⁶² “Board of Directors of the Central Bank of the Russian Federation,” *The Central Bank of the Russian Federation*, <https://www.cbr.ru/Eng/today/?PrId=dir>.

⁶³ “Mission and Values,” *Glavgosexpertiza of Russia*, <https://gge.ru/about/#menu-block1>.

⁶⁴ “For the Development of Working Documentation,” *Contract translation*, 11 August 2014. (See Appendix B).

⁶⁵ “United Sanctions Widen Sanctions Russia Against,” *Russian News Agency*, 20 Feb 2016, <http://tass.com/world/921040>.

work that is normally done by the Ministry of Construction. Despite concerns that the bridge is not a viable construction project, Glavgosexpertiza approved the plans to start construction.⁶⁶

In sum, Mosoblbank Moscow, Sberbank, and the Southern Main Bank Branch of the Russian Federation are all involved in the construction of the Crimean Bridge over the Kerch Strait. The involvement of Mosoblbank Moscow proves that Rotenberg is using his own bank for his own project, likely providing him the authority to make money off of the contract without going through external channels. The involvement of the Southern Main Bank Branch of the Russian Federation proves that the Kremlin is involved in the financing of the Kerch Strait bridge. The Russian Federation is investing in Crimea and the Russian oligarchs leading the projects are using their own businesses with the intent to achieve financial gain from government contracts.

Olga Plaksina, Mikhail Abyzov, and the Sevastopol Highway

As part of the Federal Target Program "Social and Economic Development of the Republic of Crimea and Sevastopol until 2020," Sibavtoban (Сибавтобан) was awarded an 18-month contract valued at 6.14 billion rubles (US\$107,131,237) to build a 9.1 km long four-lane high-speed highway to help alleviate traffic on urban Simferopol's infrastructure network. According to Russian corporate information website Rusprofile.ru, Sibavtoban is the only profitable business in which its owner is involved.^{67 68 69} It is unclear if he is benefiting financially from this project and where the allocated funds are going. The target for completion of this project is August of 2018. It was in August of 2016 that President Putin noted the unsatisfactory state of infrastructure in Crimea.⁷⁰

Without financial or political incentives present, few developers would choose to take part in the Simferopol highway project for fear of facing sanctions. Sibavtoban appears to have connections to SDNs Olga Plaksina (Ольга Плаксина) and Mikhail Abyzov (Михаил Анатольевич Абызов). Plaksina and Abyzov are on the executive boards for companies in Cyprus and the British Virgin Islands with Costas Hadjicosti (Κώστας Χατζηκωστή) and Charalambos Angelides (Χαράλαμπος Αγγελίδης). Little is known about these two men except that they have multiple business dealings across Cyprus, the U.S., and the British Virgin Islands. According to work history information obtained from LinkedIn, both Plaksina and Hadjicosti worked for PwC (formerly PricewaterhouseCoopers) from 1994-2002. Hadjicosti and Angelides have been working together at Abacus LTD since 2008.^{71 72 73}

⁶⁶ "Railway approaches to Kerch Strait bridge obtain state expert approval," Railway Pro Communication Platform, 26 Jan 2017, <https://www.railwaypro.com/wp/railway-approaches-to-kerch-strait-bridge-obtain-state-expert-approval/>.

⁶⁷ Oksana Pavlova, "«Сибавтобан» до Крыма," Kommersant, 2 March 2017, <https://www.kommersant.ru/doc/3230179>.

⁶⁸ "XE: Convert RUB/USD. Russia Ruble to United States Dollar." <http://www.xe.com/currencyconverter/convert/?Amount=6140000000&From=RUB&To=USD>.

⁶⁹ "Бизнесмен Морозкий Андрей Николаевич: предприниматель и учредитель, генеральный директор Морозкий Андрей Николаевич (ИНН 540213760679)," <http://www.rusprofile.ru/person/morockiy-an-540213760679>.

⁷⁰ Oksana Pavlova, "«Сибавтобан» до Крыма." Kommersant, 2 March 2017 <https://www.kommersant.ru/doc/3230179>.

⁷¹ Costas Hadjicosti, LinkedIn, <https://www.linkedin.com/in/costas-hadjicosti-49b91b29/>.

⁷² Olga Plaksina, LinkedIn, <https://www.linkedin.com/in/olga-plaksina-735149/>.

It is possible that SDNs could be using these two individuals as facilitators for offshore business. Bloomberg company profiles, Aquion Chapter 11 filings, and U.S. Securities and Exchange Commission (SEC) filings reveal that Hadjicosti, Angelides, Plaksina, and Abyzov are on the executive boards of multiple companies located in the U.S., Cyprus, and the British Virgin Islands. SEC share transfers and company acquisition/merger documents indicate that Hadjicosti and Angelides acquired shares of companies in the energy, pharmaceuticals, and export sectors.^{74 75 76 77}
78 79 80 81

U.S. businesses where Hadjicosti and Angelides have held beneficial ownership were eventually acquired by other businesses that became companies such as Houston-based Lukoil International Upstream West, Inc. (an American Lukoil Subsidiary owned by a Lukoil holding company in the Netherlands) and Chicago-based Cosmos Holdings. It is possible that this pattern of investment and acquisitions could be exploited to circumvent sanctions when dealing with business partners in Europe, Africa, and Southeast Asia.^{82 83 84} Unfortunately, the dates of transactions on SEC documents for these two companies pre-date sanctions imposed after the Russian annexation of Crimea. The website of Lukoil International Upstream West Inc, however, provides post-annexation evidence of Lukoil acquiring less than 50% ownership of overseas oil drilling companies in places such as Africa and Mexico after the imposition of U.S. sanctions.

⁷³ Charalambos Angelides, LinkedIn, <https://www.linkedin.com/in/charalambosa/>.

⁷⁴ "PanAtlantic Energy Group: CEO and Executives - Bloomberg," Bloomberg, <https://www.bloomberg.com/research/stocks/private/people.asp?privcapId=206871875>.

⁷⁵ "Vanco Exploration Company: CEO and Executives - Bloomberg," Bloomberg, <https://www.bloomberg.com/research/stocks/private/people.asp?privcapId=206872176>.

⁷⁶ "Greenbase LTD.: CEO and Executives - Bloomberg," Bloomberg, <https://www.bloomberg.com/research/stocks/private/people.asp?privcapId=237618622>.

⁷⁷ "Prime Estate Co., LTD.: CEO and Executives - Bloomberg," Bloomberg, <https://www.bloomberg.com/research/stocks/private/people.asp?privcapId=267123628>.

⁷⁸ Karina Yee, "Case 17-10500-KJC Docket #0220," 8 June 2017, <http://www.kccdc.net/aquion/document/171050017060800000000005>.

⁷⁹ "Alion SEC Form D: Notice of Exempt Offering of Securities," SEC EDGAR Database, 11 January 2011, https://www.sec.gov/Archives/edgar/data/1509945/000150994511000001/xslFormDX01/primary_doc.xml.

⁸⁰ "EX-10.1 2 pmlt_ex101.htm SHARE EXCHANGE AGREEMENT," SEC EDGAR Database, 22 April 2013, https://www.sec.gov/Archives/edgar/data/1474167/000147793213001992/pmlt_ex101.htm.

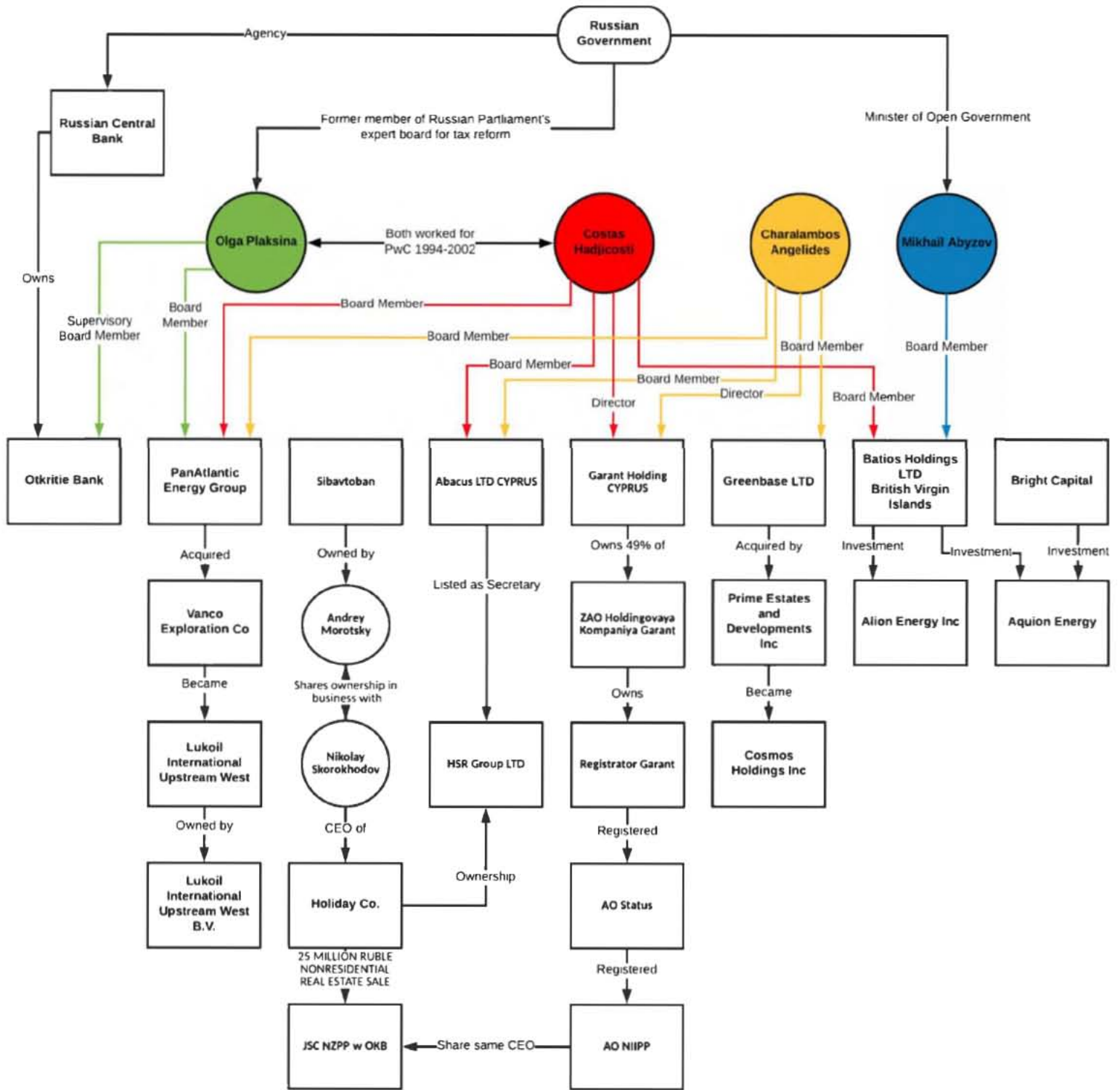
⁸¹ "EDGAR Search Results," SEC EDGAR Database, <https://www.sec.gov/cgi-bin/browse-edgar?company=prime+estates&owner=exclude&action=getcompany>.

⁸² "Lukoil- History," LUKOIL International Upstream West Inc., <http://upstreamwest.lukoil.com/en/About/History>.

⁸³ "Cosmos Holdings Inc. | International Holding Company." Cosmos Holdings Inc, <http://www.cosmosholdingsinc.com/>.

⁸⁴ See Advisen Documents 1 and 2 in the Appendix. Advisen LTD provided company profile information for Netherlands non-profit company Lukoil International Upstream Holding B.V. (DUNS #:403069565).

Chart 1: Companies Related to Olga Plaksina and Mikhail Abyzov



A complex web of companies extends from figures linked to the Sevastopol Highway project.



The Pearl Hotel and Spa Resort (Zhemchuzhina / Жемчужина)

Approximately eight months following Russia’s annexation of Crimea, the Management Company Infrastructural Projects (MCIP) LLC (OOO)—also known as UKIP⁸⁵—registered in Simferopol City in the Republic of Crimea, on November 25, 2014.⁸⁶ MCIP is constructing the hotel and spa resort project known as Zhemchuzhina (or Pearl) on the southern tip of the Crimean peninsula near the famous Swallow’s Nest Castle.⁸⁷ The founder and owner of MCIP is Vladimir Zaritsky (Владимир Зарицкий), the former Commander-in-Chief of the Missile Forces and Artillery in Russia from 2001 to 2008.⁸⁸ Zaritsky’s Pearl hotel and spa resort will reportedly cost approximately US\$29 million.⁸⁹ This is a slightly smaller project in size than the comparable Mriya Resort & Spa built in Yalta, which Sberbank funded in 2014 for US\$300 million.⁹⁰ The price difference has caused some to doubt the Pearl project’s estimates.⁹¹ While the Pearl is smaller than the Mriya Resort & Spa and costs less to construct, it is still a significant investment that requires substantial funding from a recently registered company, owned by a former high-ranking military officer who has not earned enough personal wealth while in the military to account for the funding for this project. Zaritsky is taking advantage of these construction opportunities in Crimea with unknown funding sources, which could indicate that he is using this opportunity to launder his own previously unclaimed income.

⁸⁵ “Luxurious 5-star hotel to be built in Yalta by Missile Forces and Artillery ex-head’s company,” Crime Russia, 22 January 2018, <https://en.crimerrussia.com/gromkie-dela/luxurious-5-star-hotel-to-be-built-in-yalta-by-missile-forces-and-artillery-ex-head-s-company/>.

⁸⁶ “LLC ‘UKIP’,” rusprofile, <http://www.rusprofile.ru/id/7526393>.

⁸⁷ “Peal General. Vladimir Zaritsky, ex-Commander in Chief of Missile Forces, to build hotel in Crimea,” Crime Russia, 31 January 2018. <https://en.crimerrussia.com/gromkie-dela/pearl-general-vladimir-zaritsky-ex-commander-in-chief-of-missile-forces-to-build-hotel-in-crimea/>.

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

It is unclear where the funding of the Pearl will be coming from, given that both MCIP and their contributing funding sources will be spending nearly all of their assets. The Russian Federal State Statistics Service shows MCIP total assets as currently totaling a mere US\$3,519.⁹² Zaritsky's company has reached out to an additional investor from a private Russia-based bank, Taata (designated an SDN).⁹³ ⁹⁴ ⁹⁵ MCIP's approximate US\$26.1 million contribution to the project is reportedly much less than its likely real cost of about US\$145.5 million, based upon a comparison with the Mriya resort built in 2014.⁹⁶ This would necessitate Taata's investment into the project being just slightly less than the bank's total assets—US\$162.9 million as of February 1, 2018, according to Bank.ru.⁹⁷ In other words, for Taata to fully fund the project, which far exceeds MCIP's assets, it would need to invest nearly all of its own assets. With both MCIP and Taata potentially investing more than they can afford, it seems likely the funding is coming from another hidden source, possibly Zaritsky's personal wealth.

Open-source reporting shows that Vladimir Zaritsky is a very aggressive investor in the new Crimean Republic. Zaritsky is the founder or co-founder of six OOs.⁹⁸ Before the Pearl, he attempted to acquire the Bilbek International Airport reconstruction project in Sevastopol in 2016 through his affiliate company, Integral Company, but the deal was not executed.⁹⁹ There were questions regarding how or where Zaritsky obtained his wealth.¹⁰⁰ While Zaritsky had an extensive military career in the Russian armed forces, Russian general officers are not paid a significant amount. Even when accounting for the Russian military pay increase in 2011, Zaritsky would only have made slightly more than US\$229,000 between 2001 and 2008.¹⁰¹¹⁰² Hypothetically, if Zaritsky were paid for his whole military career at the level of a Colonel-General (1968-2008), the highest rank he attained, he would have only earned approximately US\$1.3 million.¹⁰³ Zaritsky's project is expensive and seems to exceed a realistic investment for the parties involved.

However, open-source reports suggest that Zaritsky might be using this project as a means for money laundering of unreported profits he made while serving as Commander-in-Chief of the

⁹² "Limited Company 'MANAGEMENT COMPANY INFRASTRUCTURAL PROJECTS' Accounting (financial reporting)," rusprofile, <http://www.rusprofile.ru/accounting?ogrn=1149102091654>.

⁹³ "Peal General. Vladimir Zaritsky, ex-Commander in Chief of Missile Forces, to build hotel in Crimea," Crime Russia, 31 January 2018, <https://en.crimerrussia.com/gromkie-dela/pearl-general-vladimir-zaritsky-ex-commander-in-chief-of-missile-forces-to-build-hotel-in-crimea/>.

⁹⁴ "Taata Bank ZAO," Bloomberg, <https://www.bloomberg.com/profiles/companies/1260221D:RU-taatta-bank-zao>.

⁹⁵ "Treasury Designates Individuals and Entities Involved in the Ongoing Conflict in Ukraine," Department of Treasury, 20 June 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0114.aspx>.

⁹⁶ "Peal General. Vladimir Zaritsky, ex-Commander in Chief of Missile Forces, to build hotel in Crimea," Crime Russia, 31 January 2018, <https://en.crimerrussia.com/gromkie-dela/pearl-general-vladimir-zaritsky-ex-commander-in-chief-of-missile-forces-to-build-hotel-in-crimea/>.

⁹⁷ "Bank 'Taatta' replaces the head and key owner," bankru, 10 October 2017, <http://www.banki.ru/news/lenta/?id=10051459>.

⁹⁸ "Zaritsky Vladimir Nikolaevich," rusprofile, <http://www.rusprofile.ru/person/zarickiy-vn-773117131396>.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Andrzej Wilk, "A significant pay increase in the Russian Army," 2 February 2012, <https://www.osw.waw.pl/en/publikacje/analyses/2012-02-01/a-significant-pay-increase-russian-army>.

¹⁰³ "Peal General. Vladimir Zaritsky, ex-Commander in Chief of Missile Forces, to build hotel in Crimea," Crime Russia, 31 January 2018, <https://en.crimerrussia.com/gromkie-dela/pearl-general-vladimir-zaritsky-ex-commander-in-chief-of-missile-forces-to-build-hotel-in-crimea/>.

Missile Forces and Artillery in Russia.¹⁰⁴ Zaritsky is reportedly a very wealthy man, his means far exceeding the personal wealth of Lieutenant General Mikhail Matveetsky, his successor.¹⁰⁵

Pursuing a vehicle to launder his unclaimed income is one potential motive for Zaritsky's investments in the Crimean Peninsula. He may also have a genuinely positive outlook regarding the profitability of tourism in the new republic. The Pearl resort will attempt to exploit its location on the Black Sea via beach amenities and recreational facilities to attract tourism.¹⁰⁶ Given that Crimea's economy has been traditionally dominated by tourism, the Pearl could potentially be a healthy investment for Zaritsky, MCIP, and Taata bank.¹⁰⁷ Zaritsky's investment behavior in the Crimean Peninsula—behavior he began almost as soon as the region was annexed—could greatly benefit this Russian oligarch in the long term. However, it is difficult to estimate whether the tourism sector in Crimea will strengthen in the coming years, and the fact that Zaritsky invested in Crimea just as the country was experiencing an economic decline seems to indicate that he invested in the region for other reasons. Our analysis posits that the Pearl has given Zaritsky the ability to launder his wealth under the guise of making a financial investment into the newly annexed region's construction market.

Changing Patterns of Tourism in Crimea

In response to the downturn of Ukrainian and European visitors to Crimea, the Russian government has established a travel subsidy and public relations program to bring more Russians to the peninsula.¹⁰⁸ More bodies in Crimean resorts may well incentivize further investment by Russian businesspeople.

With train and ground transportation unavailable until the Kerch Strait Bridge is completed, Russia currently relies on both air travel and ferries to transport passengers across the Kerch Strait for tourism. With the assistance of Aeroflot and its CEO Vitaly Saveliev—as well as a multitude of other Russian airlines—Russia has offered subsidized flights from various regional and national airports in Russia to help bring Russians to Crimea. Discounts run as high as fifty percent.¹⁰⁹ The Russian government launched this subsidy program in spring of 2014. Moscow allocated 680 million rubles (over US\$11.8 million) from the state budget for this purpose, and more recently

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ Ibid.

¹⁰⁷ Misha Friedman, "The High Price of Putin's Takeover of Crimea," 31 March 2017, <https://www.bloomberg.com/news/features/2017-03-31/crimea-pays-a-high-price-three-years-after-russian-takeover>.

¹⁰⁸ Nataliya Vasilyeva, "Free vacations for Russian employees: destination Crimea," CTV News, 16 June 2014, <https://www.ctvnews.ca/business/free-vacations-for-russian-employees-destination-crimea-1.1870771>.

¹⁰⁹ "Crimea: 2014 Tourist Season Heading for the Rocks," Eurasianet, 11 April 2014, <https://eurasianet.org/s/crimea-2014-tourist-season-heading-for-the-rocks>.

offered 475 million rubles (US\$8.3 million) in 2017.¹¹⁰ This leap in passenger traffic comes amid a Kremlin-backed public relations campaign aimed at “[returning] Crimea to its native harbor.”¹¹¹

Larger corporations in Russia have also assisted with bringing Russians to the peninsula. Aeroflot, Russia’s largest airline (in which the Kremlin has a 51% stake) developed low-cost shuttle airlines such as the now-defunct Dobrolyet to assist in bringing Russians to Crimea.¹¹² Alrosa Airlines, a lower-cost shuttle to Crimea, provides scheduled and charter flights to and from Simferopol. Alrosa Airlines is owned by Alrosa Public Joint Stock Company (Алроса PJSC). Alrosa PJSC is a diamond company that operates out of Mirny, Russia, and is currently run by Vladimir Putin’s finance minister, Anton Siluanov.

At the end of 2015, Simferopol Airport was Russia’s fifth-busiest airport, up from ninth place in the previous year. It served over 5 million passengers, 79.9% more than in 2014. The 2016 traffic was forecast at 5.5 million passengers. Russia is expecting around 6 million tourists to visit Crimea in 2018. Though numbers had ticked downward from 2015 to 2017, the opening of the new terminal in mid-2018, plus consistent pushes from the Russian government, have led to a renewed increase in arrivals at Simferopol Airport.¹¹³ These spikes can likely be attributed to the Russian Government providing subsidies to Russians looking to spend their holidays in a warm water location. With these numbers, Russia has to a significant degree replenished the decrease in tourism that followed the initial annexation of Crimea.

Simferopol International Airport (Симферополь Интернационал Аэропорт)

Russian oligarchs Sergey Matviyenko (Сергей Матвиенко), Yuri Kovalchuk (Юрий Ковальчук), and Oleg Zhestkov (Олег Жестков) have been using the construction of a new terminal at the Simferopol International Airport as a vehicle to generate revenue. Oligarchs like Matviyenko are able to benefit financially from the contracts attached to this project due to the region’s opaque financial structure and tolerance for corrupt business deals. While corruption existed in Crimea before the 2014 annexation, the recent push from Russia to develop Crimea and increase tourism in the region has created new possibilities for oligarchs to benefit from construction projects.

The Simferopol International Airport is located in south-central Crimea and is the main international and domestic airport in the region. During the 2014 annexation, the Russian Federation seized the airport and transferred it to the newly-formed Autonomous Republic of Crimea before it was subsequently privatized. The improvements to the airport are part of Russia’s

¹¹⁰ Polina Montag-Girmes, “Russia to spend \$8.5 million for 2017 Crimea subsidy program,” Air Transportation World, 6 April 2017, <http://atwonline.com/government-affairs/russia-spend-85-million-2017-crimea-subsidy-program>.

¹¹¹ Steven Lee Myers and Ellen Barry, “Putin Reclaims Crimea for Russia and Bitterly Denounces the West,” New York Times online, 18 March 2014, <https://www.nytimes.com/2014/03/19/world/europe/ukraine.html>.

¹¹² “Aeroflot subsidiary grounded by European sanctions,” Financial Times online, <https://www.ft.com/content/f2bbcb6c-1b31-11e4-a633-00144feabd0>.

¹¹³ Andrey Bystrov, “Simferopol airport back on positive growth path,” Russian Aviation Insider online, 12 March 2018, <http://www.rusaviainsider.com/simferopol-airport-back-positive-growth-path/>.

Strategy for Socio-Economic Development of the Republic of Crimea and were promoted at the YIEF as a project designed to increase and manage tourism.

In April 2016 the Crimean government made an investment agreement with Russian company Simferopol International Airport OOO (Симферополь Интернационал Аэропорт ООО), selling 51% of the airport. International Airport Simferopol OOO officially acquired the entire property with approval from the Russian Federal Anti-monopoly Service in June 2016.¹¹⁴ While there are legitimate benefits to improving an airport, Russian oligarch Sergey Matviyenko and others are benefiting financially from the contract. Matviyenko has taken numerous steps to obscure the financial record of these benefits.

*Sergey Matviyenko (Сергей Матвиенко):
Acquiring Contracts Through Nepotism*

It is likely that Sergey Matviyenko was unfairly awarded the bid for development of the Simferopol Airport through his mother's connection to the Russian government. Sergey's mother, Valentina Matviyenko (Валентина Матвиенко), has been unfairly granting her son contracts for development in Russia since she was Governor of Saint Petersburg between 2003 and 2011. Since Valentina Matviyenko was promoted to Chairwoman of the Federation Council in 2011, she has been expanding the size of contracts she has been able to grant her son, including at least one contract in the newly-annexed Crimea.

Valentina Matviyenko, the third-highest-ranked official in the Russian Federation, has already been sanctioned by the U.S. government. However, her son Sergey Matviyenko continues to evade international criminal prosecution due to the extensive effort he puts into obscuring his connection to the bids obtained by his mother and thus any personal wrongdoing.



Valentina Matviyenko &
Vladimir Putin



Sergey Matviyenko &
Valentina Matviyenko

¹¹⁴ "A motion was agreed on the completion of a transaction (actions) falling under control of economic concentration," Legal acts, Federal Antimonopoly Service, 24 June 2016, <http://solutions.fas.gov.ru/ca/upravlenie-regulirovaniya-transporta/ar-42144-16>.

The construction of the new wing of the Simferopol International Airport is estimated to cost US\$522 million dollars. The money invested in the project comes from a combination of state loans and private investment. It was discovered at the 2016 YIEF that the Crimean government selected Sergey Matviyenko to win the Simferopol International Airport OOO contract. However, no bid was made public, preventing any competition for the contract. Simferopol International Airport OOO secured funding through its parent company Accord-Invest OOO (Аккорд Инвест ООО) to begin development. Through multiple shell companies, Accord Invest is linked to Matviyenko. The connection begins with the Airport and ends with Empire JSC (Империя ЗАО). Simferopol International Airport OOO is funded by Accord Invest. Accord invest is owned by Accord Holding (Аккорд Холдинг ООО). Accord Holding is owned by Accord Capital (Аккорд Капитал ООО). Accord Capital is funded by BMA Invest (Б.М.А. - Инвест). BMA Invest is funded by Syndicated Investments OOO (Синдицированные Инвестиции ООО), and Syndicated Investments acquired Empire ЗАО (Империя ЗАО), which Sergey Matviyenko founded.

The connection to Matviyenko is clouded and obscured even more by a string of other investors. Similar to the financial transactions for the Crimean Bridge over the Kerch Strait, Sberbank is a vehicle used to move money for many of the contracts awarded for the construction of the new terminal in the Simferopol Airport.¹¹⁵ The involvement of Glavgosexpertiza, which was also used in the Crimean Bridge over the Kerch Strait, further proves the Russian Federation is involved in propping Crimea up through the construction of the new terminal since Glavgosexpertiza is conducting work in place of the Ministry of Construction.

There is also evidence RNCB is involved with financing the new terminal. RNCB is the largest Russian bank operating in Crimea. Originally a subsidiary of VTB Bank, RNCB is owned by the Federal Agency for State Property Management, but its official documentation shows Alexey Alexeevich Shcherbakov as the President.¹¹⁶ ¹¹⁷ The Chairman of the Board of Directors of the Bank is Ruslan Arefiev. RNCB was added to the U.S. sanctions list in early 2015.¹¹⁸

RNCB has pledged a 13.98 billion ruble (US\$223.9 million) loan to the construction of the new terminal, but there are no loan documents or contracts available to the public to prove this.¹¹⁹¹²⁰ However, RNCB did release a statement in support of this loan:

“Within the framework of the syndicated loan agreement, [we] opened a credit line for LLC International Airport Simferopol with a total limit of 13.98 billion rubles(US\$223.9 million). The funds will be provided for 15.5 years for the construction of a new passenger terminal with an area

¹¹⁵ “Treaty Number 0059D-16/GGE-10471/10/SG/R0016: For the execution/implementation of work, or a performance evaluation,” Simferopol Contract, 27 Jan 2016. (See Appendix B).

¹¹⁶ “How did Russia’s RNCB Avoid Ukraine-related Sanctions For So Long?” Financial Times, 8 March 2015, <https://www.ft.com/content/5d3e5ef4-9c80-3ee3-8768-67b72771e563>.

¹¹⁷ “Single State Register of Legal Entities: Russian National Commercial Bank,” RNCB Registry, 14 March 2013, rusprofile.ru.

¹¹⁸ “Ukraine Related Designations,” U.S. Department of Treasury, 11 March 2015, <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20150311.aspx>.

¹¹⁹ “Company Overview of Simferopol International Airport,” Bloomberg, 31 March 2018, <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=110000492>

¹²⁰ “XE Currency Converter: Convert RUB to USD.” XE.com, <https://www.xe.com/currencyconverter/convert/?Amount=13%2C980%2C000%2C000&From=RUB&To=USD>

of 78 thousand square meters. The planned capacity of the terminal is at least 6.5 million passengers per year.”¹²¹

RNCB’s involvement further indicates the Kremlin’s involvement. This bank is owned by the government and is providing a large loan to help finance the terminal, so essentially the Kremlin is financing the terminal.

Bank Rossiya, which is under U.S. sanctions, is also involved in this project. Bank Rossiya is owned by the U.S.-sanctioned oligarch Yuri Kovalchuk, who has a personal stake of 40% in Simferopol Airport.¹²² Kovalchuk is also a partner in Accord-Invest, which is the parent company of Simferopol Airport, OOO. Bank Rossiya is used by many Russian officials for their personal banking, and Kovalchuk is known to be one of Putin’s personal economic advisors.¹²³ Dmitry Lebedev is the Chairman of the Board of Directors of Bank Rossiya.¹²⁴ Lebedev and Kovalchuk also work together with Center for Strategic Research “North-West” (“CSRNW”) in which Lebedev is the Director and Kovalchuk is the Chairman of the Board of Directors.¹²⁵ Kovalchuk’s investment, through the Kremlin-funded Center for Strategic Research North-West, shows the Kremlin’s willingness to use a firm dedicated to investment to enrich Putin’s allies. CSR charades as a think-tank looking at investment in the North-West region of Russia, but has direct ties to Kovalchuk and Dmitri Lebedev, both of whom are labelled by OFAC as SDNs.

In sum, Bank Rossiya executives are tied directly to the Center for Strategic Research “North-West,” which is connected to Akkord, which is subsequently linked to the construction of the new terminal at Simferopol Airport. Sberbank, RNCB, and Bank Rossiya are all involved in the construction of the new terminal at Simferopol airport. Sberbank is mostly used as a vehicle for transferring money, whereas RNCB is directly providing loans, which are tied to the Kremlin. Bank Rossiya is involved through Kovalchuk’s involvement in the airport. The use of these financial institutions proves that the Kremlin is involved in providing financing to projects in Crimea—with the likelihood that the oligarch at hand, Kovalchuk, will benefit.

The chart below shows how Sergey Matvienko has gone to great lengths to obscure his connection to the Simferopol International Airport and created a web of companies in which he can obscure his personal financial gains.

¹²¹ “RNSB Bank will provide financing to LLC “International Airport” Simferopol,” Russian National Commercial Bank, 25 August 2016, <http://www.rncb.ru/news/2345/>.

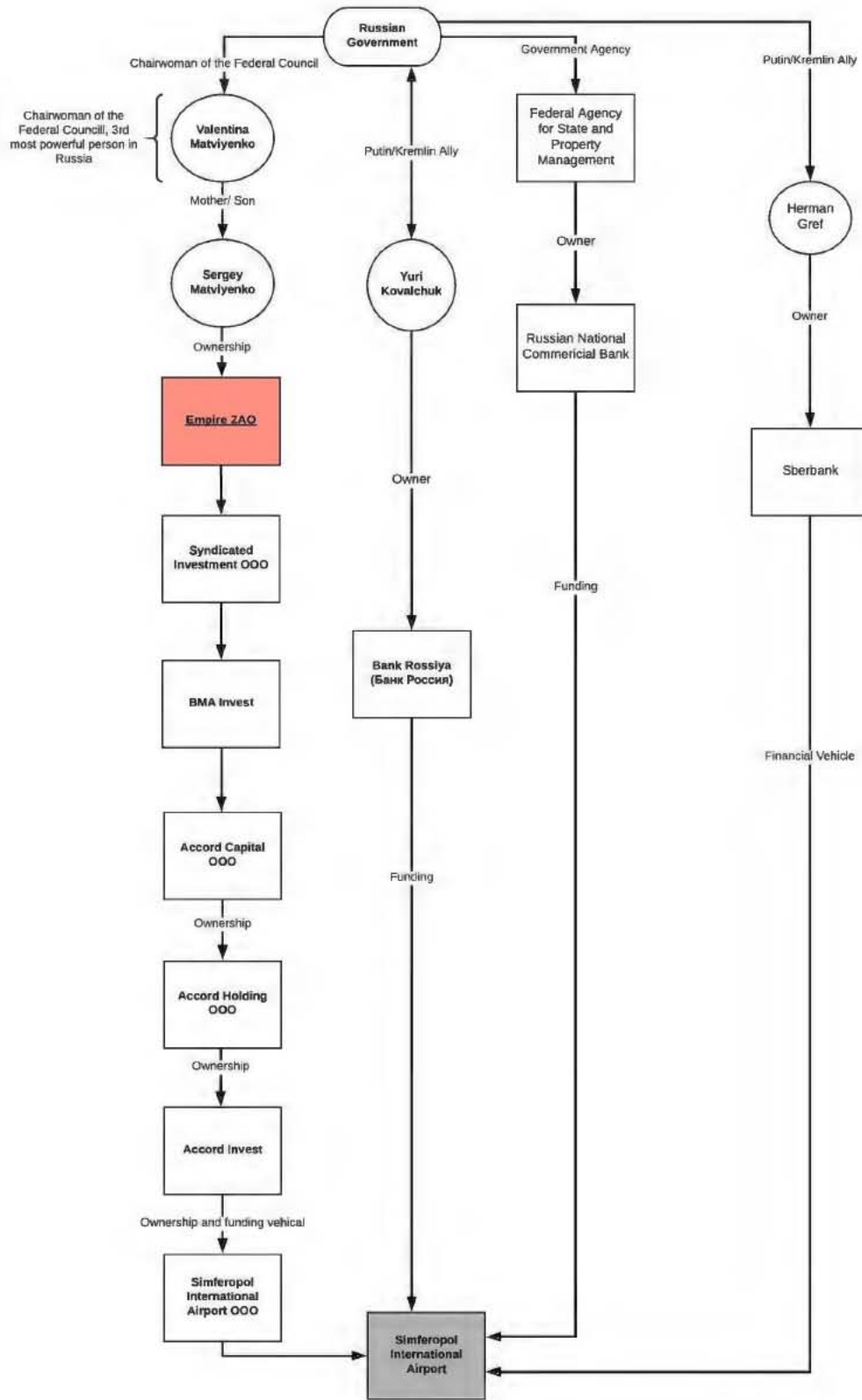
¹²² “Company Overview of Simferopol International Airport,” Bloomberg, 31 March 2018, <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=110000492>.

¹²³ Simon Bowers. “Bank Rossiya. Kremlin’s favoured bank. to be “frozen out the dollar.” The Guardian, 20 March 2014, <https://www.theguardian.com/world/2014/mar/20/crimea-crisis-kremlin-bank-frozen-out-dollar>.

¹²⁴ “Board of Directors,” Bank Rossiya, <http://www.abr.ru/about/corp/corporativ/>.

¹²⁵ “Center for Strategic Research ‘North-West’ (CSR ‘North-West’),” NIRA’s World Directory of Think Tanks, <http://www.nira.or.jp/past/ice/nwdtt/2005/DAT/1267.html>.

Chart 2: Companies Affiliated with Simferopol International Airport



III. Energy

Due to Western sanctions and pressure, Russian oligarchs are likely masking their involvement in the Crimean energy sector through the use of shell companies and a web of offshore companies, bank accounts, and international lawyers. Specifically, energy companies are seeking to gain from Russia's encroachment on the oil and natural gas deposits on the Crimean shelf because the Black Sea reserves are estimated to contain anywhere from four to thirteen trillion cubic meters of natural gas.¹²⁶ Crimea suffers from a shortage of power and requires a stable supply to develop its other sectors. As Russia seeks to legitimize Crimea, energy production will be a top priority. Due to U.S. and European sanctions, large Russian energy companies are either avoiding or are masking their involvement in Crimea. Therefore, most of the companies found to have connections to Crimea are either small, or relatively unknown.

Prior to its annexation, the Crimean peninsula relied heavily on Ukraine to supply it with electricity. Despite the presence of oil and gas fields located along the Black Sea shelf, much of the potential remained untapped, and power was routed into Crimea from plants in the interior of Ukraine. Chornomorneftegaz (Чорноморнефтегаз), a subsidiary of state energy company Ukrenergo (Укренерго), operated much of the energy infrastructure on the peninsula. As a net energy importer, Crimea relied on greater Ukraine for about 70% of its power—pylons and cables supplied approximately 650 megawatts of electricity.¹²⁷

Despite Ukraine having oil and natural gas production capabilities, much of the country's energy came from abroad. According to the U.S. Energy Information Administration (EIA), as much as 40% of the total Ukrainian energy supply came from natural gas.^{128 129} Russia, the largest supplier by volume, accounted for three-fifths of Ukraine's total energy supply.¹³⁰ Russia repeatedly demonstrated willingness to raise their prices as a tool of political leverage. Before the annexation, the Ukrainian government started a project to develop its domestic energy production capacity, with an eventual goal of energy independence from Russia by 2020. The Yanukovich government succeeded in reducing dependence on Russian gas from a peak of forty-five billion cubic meters in 2011 to twenty-eight billion cubic meters in 2013. Crimea's role in this development program was to serve as a site of new natural gas exploitation because the Black Sea reserves are expected to contain anywhere from four to thirteen trillion cubic meters of natural gas. After an open bidding process, contracts were ultimately awarded to Exxon-Mobil and Dutch Royal Shell in August 2012 for leading exploration and development of the deepwater Skifska gas fields near Crimea. Exxon-Mobil and Royal Dutch Shell outbid several other companies including one of Russia's largest oil companies - Lukoil. The fields were expected to produce as much as four billion cubic meters of gas annually.

After the annexation of Crimea, power supplies from Ukraine's interior were severed, and foreign energy development ended. Russia has nationalized all energy resources and companies in

¹²⁶ NATO, "The Energy Dimensions of Russia's Annexation of Crimea," NATO Review, <https://www.nato.int/docu/review/2014/NATO-Energy-security-running-on-empty/Ukraine-energy-independence-gas-dependence-on-Russia/EN/index.htm>.

¹²⁷ Anna Shamanska, "Explainer: Why Ukraine Supplies Electricity To Crimea, And Why It Stopped," RadioFreeEurope/RadioLiberty, 25 November 2015, <https://www.rferl.org/a/ukraine-crimea-power-supply-electricity-explainer/27384812.html>.

¹²⁸ "Eastern Europe, Caucasus, and Central Asia." International Energy Agency, 2015, https://www.iea.org/publications/freepublications/publication/IDR_EasternEuropeCaucasus_2015.pdf.

¹²⁹ "Ukraine 2012." International Energy Agency, 2012, https://www.iea.org/publications/freepublications/publication/Ukraine2012_free.pdf.

¹³⁰ Ibid

Crimea and expanded its Exclusive Economic Zone claim in accordance with new Crimean territorial borders. After Russian paratroopers secured Chornomorneftegaz's oil drilling platforms, the company broke away from Ukraine and was nationalized by Gazprom (Газпром).¹³¹ ¹³² Russia's largest oil companies, Gazprom (including Chornomorneftegaz), Gazprom Neft, Lukoil, Surgutneftegas, and Rosneft were quickly targeted by U.S. sanctions to hit the Russian economy and prevent them from exploring and developing the Crimean shelf.¹³³ However, these sanctions have not stopped all companies from initiating projects in Crimea.

Numerous sources have cited Joint Stock Company "Krimtec" (КРЫМТЭЦ), a Crimean power plant, and "Novye Proekty" [New Project] (НОВЫЕ ПРОЕКТЫ), a subsidiary of Russian oil and gas machinery company JSC Glavnefteservis (Главнефтесервис), as the beneficiaries of contracts and licenses from the Russian government. These companies were awarded official licenses and contracts by the Russian government to pursue the production of electricity, and the exploration and production of oil and gas on the Crimean shelf. According to Russian state newspaper, Kommersant, Russian Prime Minister Dmitry Medvedev issued a license for "Novye Proekty" in June 2016 timed to last 30 years.¹³⁴ Several companies, including the RNCB, have large contracts with JSC "Krimtec," highlighting the importance of Crimean energy production to the Russian regime.

Krimtec (КРЫМТЭЦ)

According to November 2017 open-source reporting, the Russian government awarded Krimtec the tender for a small power plant with a capacity of up to 120 megawatts in Simferopol. Refurbishment and expansion of this plant is expected to alleviate the electricity shortage until the two entirely new power plants are built elsewhere.¹³⁵

In 2015, Krimtec began submitting applications to receive approval for its investment programs. According to Krimtec's company website, the structure was in a "deplorable state" and the main financier, RNCB, has invested millions of rubles into the company to replace deteriorating equipment and ensure a reliable energy supply.¹³⁶ Contracts found on Krimtec's website and Zakupki.gov.ru confirm that Krimtec receives funding from several sources, including over US\$80,000 for "provisions of services for the opening of a non-revolving credit line for the purpose of financing the project 'Expansion of Saks Heating Networks' with the installation of a CCGT-120 MW" from RNCB.¹³⁷

¹³¹"Drilling Rigs of 'Chernomornaftogaz' Were Captured By The Russian 104th Regiment's Paratroopers," *InformNapalm.org*, 24 December 2015. <https://informnapalm.org/en/drilling-rigs-of-chernomornaftogaz-were-captured-by-the-russian-104th-regiment-s-paratroopers/>.

¹³²NATO, "The Energy Dimensions of Russia's Annexation of Crimea," NATO Review, <https://www.nato.int/docu/review/2014/NATO-Energy-security-running-on-empty/Ukraine-energy-independence-gas-dependence-on-Russia/EN/index.htm>.

¹³³U.S. Department of the Treasury, "Announcement of Expanded Treasury Sanctions within the Russian Financial Services, Energy and Defense or Related Materiel Sectors," <https://www.treasury.gov/press-center/press-releases/Pages/j12629.aspx>.

¹³⁴"Over the Shelf Stretches the Shelf of the "New Projects"," *Kommersant.ru*, 5 March 2017, <https://www.kommersant.ru/doc/3235138>.

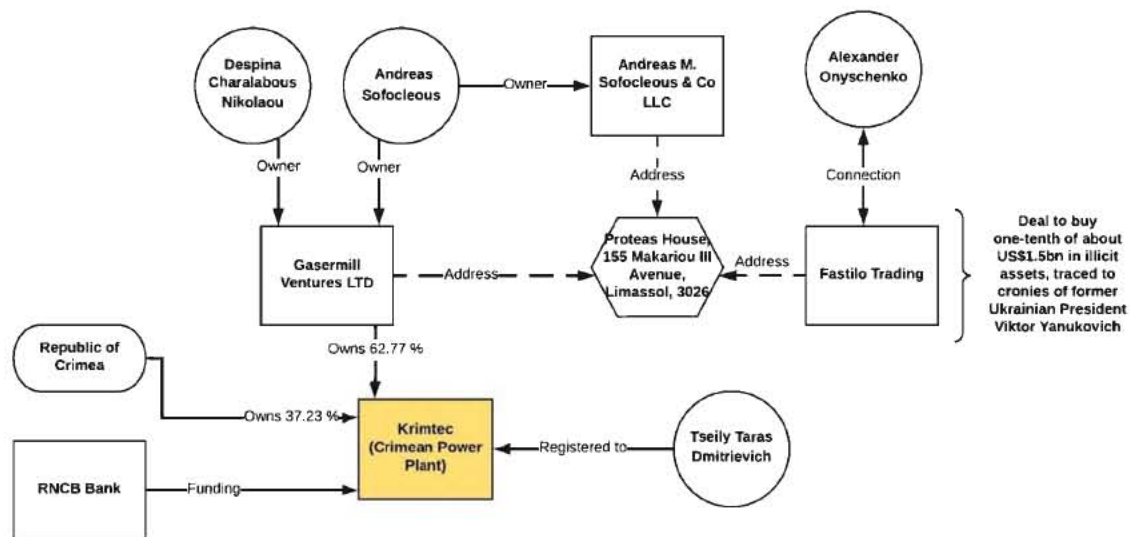
¹³⁵Anastasia Lyrchikova, "Russia Says Launch of Crimea Power Plant Delayed," *Reuters*, 9 November 2017, <https://www.reuters.com/article/us-ukraine-crisis-crimea-electricity/russia-says-launch-of-crimea-power-plant-delayed-idUSKBN1D91ZT>.

¹³⁶"АО "КРЫМТЭЦ" - генерация электрической и тепловой энергии." КРЫМТЭЦ, <http://krimtec.com/>.

¹³⁷Appendix B, Federal Treasury, Unified Information Systems in the Field of Procurement, <http://zakupki.gov.ru>.

In January 2015, Krimtec was registered to Tseily Taras Dmitrievich in the city of Simferopol in the Republic of Crimea.¹³⁸ According to rusprofile.ru, Gasermill Vencherz LTD is a shareholder and owns a controlling 62.77% of Krimtec. The Republic of Crimea owns the remainder of the company, with a 37.23% share. According to the Cypriot Ministry of Commerce, Industry, and Tourism, in 2008, Gasermill Ventures LTD was registered to Despina Charalabous Nikolaou (ΔΕΣΠΟΙΝΑ ΧΑΡΑΛΑΜΠΟΥΣ ΝΙΚΟΛΑΟΥ) and Andreas Sofocleous (ΑΝΔΡΕΑΣ ΣΟΦΟΚΛΕΟΥΣ) in Cyprus.¹³⁹ Sofocleous' law firm, Andreas M. Sofocleous & Co LLC, specializes in mergers and acquisitions, cross border transactions, joint ventures, and intellectual property licensing, as well as company formation and management and other business arrangements.¹⁴⁰ A considerable number of companies, including Gasermill Ventures LTD and Sofocleous' law firm, are registered to the same address—specifically, Proteas House, 155 Makariou III Avenue, Limassol, Cyprus, 3026. In addition to the companies listed above, Al Jazeera's investigative reporting has tied Alexander Onyschenko to Fastilo Trading, which is registered to the same Cypriot address. Al Jazeera reported, "Al Jazeera's Investigative Unit has obtained an unsigned document that puts Onyschenko and his Cyprus company, Fastilo Limited, at the heart of a deal to buy one-tenth of about US\$1.5 billion in illicit assets, traced to cronies of former Ukrainian President Viktor Yanukovich."¹⁴¹ **Russian oligarchs are likely using Gasermill Ventures LTD in Cyprus to mask their involvement in the Crimean energy sector by hiding true ownership as a way to skirt potential sanctions.** They are likely doing this in ways similar to Onyschenko's Fastilo Trading, but further investigation is needed to confirm.

Chart 3: Krimtec Energy Connections



¹³⁸ "АО "КРЫМТЭЦ" - генерация электрической и тепловой энергии." КРЫМТЭЦ, <http://krimtec.com/>.

¹³⁹ Department of Registrar of Companies and Official Receiver, <https://efiling.drcor.mcit.gov.cy/DrcorPublic/SearchResults.aspx?name=%&number=232696&searchtype=optStartMatch&index=1&name=%&sc=0>.

¹⁴⁰ "Andreas M. Sofocleous & Co LLC | Advocates - Legal Consultants," Andreas M. Sofocleous & Co LLC | Advocates - Legal Consultants, <http://www.sofocleous.com.cy/>.

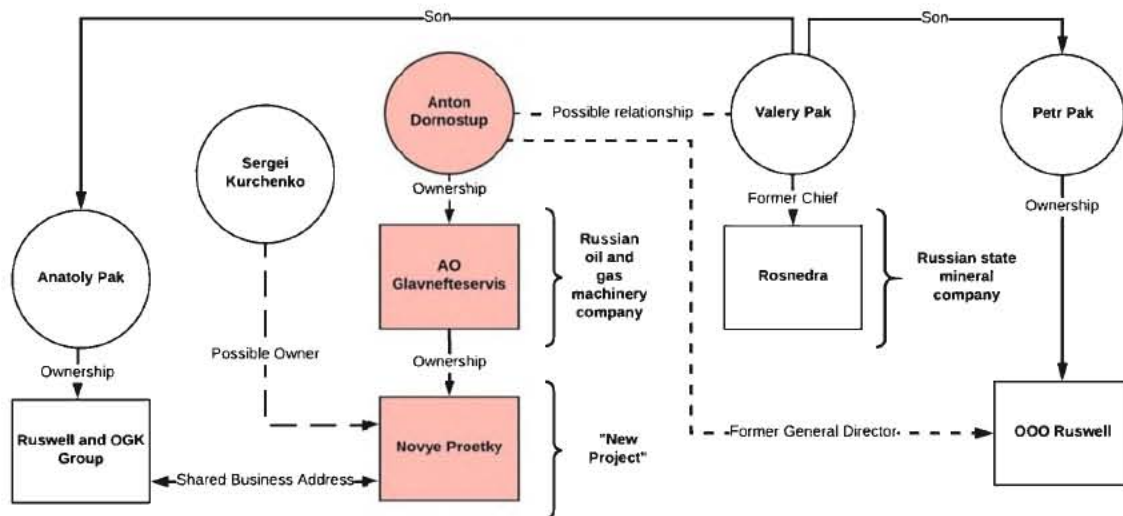
¹⁴¹ Will Jordan, "Illicit Deal Targets Assets Looted from Ukraine," *Ukraine | Al Jazeera*, January 07, 2018, <https://www.aljazeera.com/indepth/features/illicit-deal-targets-assets-looted-ukraine-171206141619973.html>.

Novye Proekty (НОВЫЕ ПРОЕКТЫ)

In March 2017, Kommersant reported that Novye Proekty ("New Projects") received a license for the exploration and production of oil and gas on the shelf of Crimea. The Glubokaya area of the Black Sea, is estimated to contain eight million tons of crude oil and 1.4 billion cubic meters of natural gas.

Novye Proekty is a subsidiary of AO Glavnefteservis (not to be confused with Glavsetservis), owned by businessman Anton Dornostup (АНТОН ДОРНОСТУП). According to several open-source reports, CEO Anton Dornostup has a close relationship with Valery Pak, but this remains unclear. Pak was previously chief of Russian state mineral company Rosnedra, former deputy minister for natural resources, and former head of multiple Russian oil companies. According to licenses found on egrul.nalog.ru, Novye Proekty shares a business address with the Ruswell and OGK Group, headed by Anatoly Pak, one of Valery Pak's sons; Dornostup was also General Director of Ruswell Ltd., a company owned by Petr Pak, another Pak son.

Chart 4: Novye Proekty and the Anton Dornostup Connection



The connection between Dornostup's company and the Russian state, through the Pak clan, is clear. Media reports claim the real owner of the Novye Proekty operation is Ukrainian oligarch Sergei Kurchenko, but the connection remains an intelligence gap.¹⁴²

Due to the significant financial investment and development currently ongoing in the Crimean energy sector, it is likely that Russian oligarchs are making a concerted effort to exploit this market for financial gain. The use of offshore shell companies and lawyers is clearly a mechanism designed to hide their presence and skirt current and future sanctions. Additional sources of intelligence are needed to determine exactly who is behind Krimtec and Novye Proekty.

¹⁴²“Over the Shelf Stretches the Shelf of the “New Projects,” Kommersant.ru, 5 March 2017, <https://www.kommersant.ru/doc/3235138>.

IV. Real Estate

It is probable that the beneficial owners of Paragon—Lyudmila Lebedev Petrovna and her husband Pavel Lebedev—exploit offshore holding companies to obfuscate their investments in Crimean real estate and avoid being sanctioned by the U.S. The Paragon consortium of companies is one of the major real estate development companies on the Crimean Peninsula, operated by former Ukrainian Prime Minister Pavel Lebedev since at least 2012.¹⁴³ Pavel Lebedev may also be attempting to gather political support which he can use to benefit his real estate business. Some news reports noted that he had expressed interest in becoming governor of Sevastopol in 2016.¹⁴⁴ Currently Lebedev is the Vice President of the Russian Union of Industrialists and Entrepreneurs and Chairman of the Sevastopol coordination branch of the organization.¹⁴⁵

Pavel Lebedev (Павло Лебедєв)



L to R: Defense Minister Pavel Lebedev, Ukrainian President Viktor Yanukovich, Russian President Vladimir Putin, and the Russian Minister of Defense at the 2013 Navy Day Parade in Sevastopol.

Lebedev and his wife fled Ukraine in February 2014 alongside Former President Viktor Yanukovich.¹⁴⁶ Due to his involvement in the annexation and alleged sale of Ukrainian military information and supplies to Russia,¹⁴⁷ Ukrainian law enforcement issued a warrant for his arrest in 2016.¹⁴⁸ Locally, Lebedev heads the Crimean Council of Russian Union of Industrialists and Entrepreneurs, and is the Deputy Chairman of the Sevastopol branch of that organization.¹⁴⁹ Lebedev was scheduled to testify via video link from Russia in the treason case against Former Ukrainian President Viktor Yanukovich in late March 2018.¹⁵⁰ Reports have yet to confirm if Lebedev has testified at this time. Lebedev is also involved with the Crimean chemical company

¹⁴³ "New Defense Minister Lebedev Has 36.5 Million Income, Fleet of Expensive Cars and More than 50 Land Plots," 24 December 2012, https://en.censor.net.ua/photo_news/228223/new_defense_minister_lebedev_has_365_million_income_fleet_of_expensive_cars_and_more_than_50_land_plots

¹⁴⁴ "Former Minister of defense of Ukraine Lebedev wants to be "Governor" of the occupied Sevastopol" "Ukrop News 24" March 1, 2016. <https://ukropnews24.com/former-minister-of-defense-of-ukraine-lebedev-wants-to-be-governor-of-the-occupied-sevastopol/>

¹⁴⁵ "Pavel Lebedev Building in Sevastopol," Zagorodna, 3 January 2016, <https://www.zagorodna.com/en/articles/pavel-lebedev-building-in-sevastopol.html>.

¹⁴⁶ Natalie Vikhrov. "Fugitive ex-defense minister continues to battle EBRD," 24 March 2017, <https://www.kyivpost.com/business/fugitive-ex-defense-minister-continues-battle-ebrd-bank-says.html>.

¹⁴⁷ Taras Kuzio. "Who committed treason in Ukraine?" Ukrainian Policy, 1 March 2016, <http://ukrainianpolicy.com/who-committed-treason-in-ukraine/>.

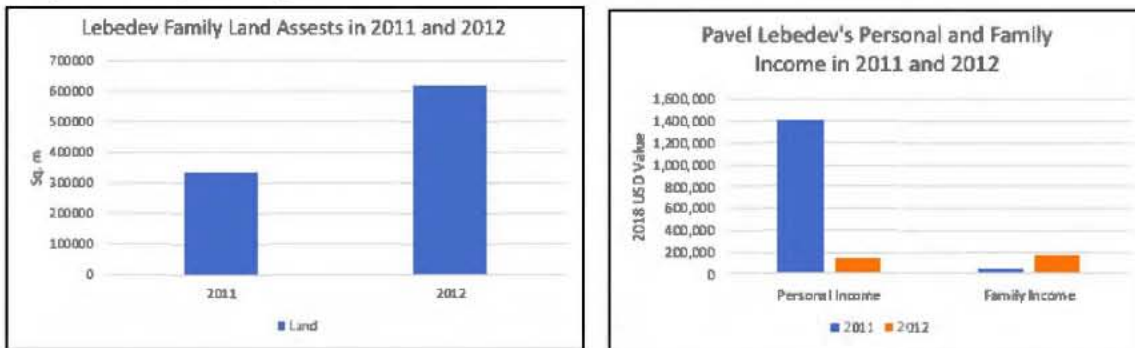
¹⁴⁸ Pavlo Lebedev, "Revoly", https://www.revolvy.com/main/index.php?s=Pavlo%20Lebedyev&item_type=topic.

¹⁴⁹ "Former Minister of defense of Ukraine Lebedev wants to be "Governor" of the occupied Sevastopol" "Ukrop News 24" March 1, 2016. <https://ukropnews24.com/former-minister-of-defense-of-ukraine-lebedev-wants-to-be-governor-of-the-occupied-sevastopol/>

¹⁵⁰ "Court agrees to question Azarov via video link in Yanukovich treason case," UkrInform, 21 March 2018, <https://www.ukrinform.net/rubric-politics/2426273-court-agrees-to-question-azarov-via-video-link-in-yanukovich-treason-case.html>.

Titan; Altius Development, which was involved in constructing the Olympic Village for the 2014 Olympic Games in Sochi; as well as several Oleg Deripaska-linked development firms.¹⁵¹

When declaring his personal and financial assets in 2011 and 2012 for his inauguration as Minister of Defense (figures below), Pavel Lebedev's personal income dropped from US\$1,400,793 (36,567,560 UAH) in 2011 to US\$140,458 (3,666,655 UAH) in 2012 (a tenfold decrease) while his family's income increased by 400%. On the same declarant paperwork, his household/family financial liabilities dropped from (1,067,214 UAH) in 2011 to (6,713 UAH) in 2012. His household land holdings doubled from 336,693 m² across 46 properties in 2011 to 620,861 m² across 57 properties, with an approximately equal increase in real estate holdings.¹⁵² This possibly reveals that Pavel Lebedev transferred some income generating assets to his wife between the 2011 and 2012 filings, and that he rapidly purchased over 300,000 m² of land to potentially divest his assets away from his political position.



Significant changes in apparent income and holdings can be discerned in the Lebedev family between 2011 and 2012.

Parangon (Парангон)

According to Parangon's homepage, Parangon.org, the company has been operating on the peninsula since 2006, and has a 40% market share on Sevastopol's construction and real estate market. Some of their current and completed projects include Aqua Evpatoria spa resort, LCD Olympia, LCD Cossack Bay, and numerous other apartment and luxury resorts on the peninsula. Additionally, they boast that they were one of the first companies to be registered and approved to construct and sell real estate in Crimea by the Russian Government post-2014 invasion. This fact is supported by the Russian State Register Number (OGRN/OГPH) registration dates for the various connected companies where the majority were registered between October 2014 and December 2015.

Parangon is headquartered at a solitary office building in Sevastopol, and the address served to connect many other companies to the group (many having office numbers in the 40s). These related companies were involved in a wide range of services such as car sales, customer loans, legal services, electrical installation, and more—though their website only advertises their

¹⁵¹Scott Stedman, "Exclusive: Oleg Deripaska's Right-Hand Man was Trump Tower Moscow Developer's Former CEO," Medium, 13 December 2017, <https://medium.com/@ScottMStedman/exclusive-oleg-deripaskas-right-hand-man-was-trump-tower-moscow-developer-s-former-ceo-75f36781eeff>.

¹⁵²Pavel Lebedev 2011-2012 Financial Filings, <https://pep.org.ua/en/person/9878>.