

Exposing Russia's corporate 'corruption'



Bill Browder's Hermitage hedge fund offices were raided by Russia's Interior Ministry

Philip Aldrick

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Bill Browder claims office raids are part of criminal elements in law agencies. Philip Aldrick reports

One of Russia's largest foreign investors and a leading opponent of corruption has broken cover to take on criminal elements in the higher reaches of law enforcement agencies to expose the lawless heart of corporate Russia.

Bill Browder, whose \$4bn (£2bn) Hermitage Capital Management hedge fund is largely invested in the former Soviet republic, is fighting back after allegedly being targeted by gangs trying to seize hundreds of

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millions of dollars of Hermitage's cash and assets.

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The battle spilled into the public domain on Wednesday after the Russian business paper Kommersant reported that the Interior Ministry had charged Mr Browder with tax evasion in absentia and that he was now a fugitive. He has been barred from the country since authorities revoked his visa in November 2005 on grounds of "national security".

Yesterday, the Interior Ministry issued a firm denial of the Kommersant story, saying: "The investigative unit of the Interior Ministry brought no charges against William Browder."

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Mr Browder, an American with British citizenship who is connected to Tony Blair and George W Bush, is convinced the story was planted by the same allegedly criminal elements he is battling.

Hermitage has not won many friends in Russia's corporate community since setting up in 1996. As an activist investor, battles for shareholder rights have pitched Mr Browder against Gazprom, Sberbank and Surgutneftegaz.

But his corporate battles did not prepare him for the institutional corruption he now claims to be fighting. "This is one of the most sophisticated corporate identity thefts," a spokesman said.

Hermitage alleges that a senior Russian police officer at the Interior Ministry aided by other law enforcement officials - all suspected to be connected to the Russian Mafia - tried to steal at least \$360m from the company.

Mr Browder's problems began on February 17, 2007. After several unsuccessful attempts to have his visa reinstated, including one in January 2007 through the now-president Dmitry Medvedev, he says he was contacted by the officer.

In transcripts of the call provided by Hermitage, the officer allegedly says: "The sooner you provide what is necessary, the sooner your problems will disappear." Hermitage refused.

On June 4, the officer and 25 subordinates raided Hermitage's offices in Moscow - seizing one server, seven computers and five boxes of documents. The grounds for the raid were an alleged \$44m underpayment in dividend withholding tax by one of Hermitage's clients - a Russian company named Kameya.

The same day police raided the Moscow office of Hermitage's legal adviser, Firestone Duncan, seizing servers, computers and two van-loads of documents. One lawyer who protested was beaten so viciously



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he was hospitalised.

Hermitage claims there was no basis for the raids. It has since checked with the Russian Ministry of Finance, the Federal Tax Service and the Tax Authority Number 7 that the tax payments were correct. All three confirmed there had been no irregularities.

In effect, Hermitage claims, the Interior Ministry - equivalent to the Metropolitan Police - had no authority to make the charge.

Mr Browder's people believe the Kameya charge, which remains outstanding, was just a smokescreen for the police officer and his associates to access Hermitage's private papers. The reason soon became clear.

In October, Hermitage learned to its immense surprise that it had lost six cases filed against its three Russian investment holding companies - Rilend, Parfenion and Makhaon. Three months earlier and without Hermitage's knowledge, lawyers representing the holding companies had pleaded guilty in a St Petersburg arbitration court of failing to pay contractual fees to a company called Logos Plus. The judge ruled that \$376m was owed.

The only way Hermitage could have been represented in court unawares was if someone had changed the ownership of the holding companies. On investigation, Hermitage discovered that HSBC - Hermitage's trustee in Russia - had surreptitiously been replaced by a company called Pluton.

Hermitage believes criminal elements used the company's corporate seal, original charter, and original certificates of registration - all of which were taken from the offices of Firestone Duncan - to change the ownership. The St Petersburg cases brought by Logos Plus have since been overturned on evidence of the fraudulent ownership.

HBSC, on behalf of Hermitage, made a number of formal requests for a criminal case to be launched, naming the officer and law enforcement officials. One has found traction and a case is now being pursued by the Russian Investigative Committee.

Hermitage claims the committee has interrogated the police officer, which it believes is why the media was contacted.

Hermitage alleges that the fraudulent cases were intended to provide legal authority for the seizure of up to \$500m of cash and assets. After the office raids, subpoenas had been issued against Hermitage's banks - HSBC, Citigroup, Credit Suisse and ING - for access to all its accounts.

Had there been any money in them, Mr Browder's spokesman is convinced it would have been taken. Fortunately for Hermitage, the funds had been remitted overseas.

Corporate identity theft is an issue that has reached the very top. President Medvedev recently said: "What is there left for motivation and

initiative of entrepreneurs when they know that at any moment they may lose their business due to bandit operations? There is urgent need to pass anti-raid legislation."

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