

Want Putin's Attention On Ukraine? Follow His Money

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Vladimir Putin is rushing to complete his Blitzanschluss of the Crimea. His Duma is drafting legislation to “unite new subjects into the Russian Federation.” A referendum, originally scheduled for March 31, will likely be moved up. The West will shortly face a fait accompli of the incorporation of Ukrainian territory into the Russian Federation. President Obama and the leaders of Europe have only a few days, or even hours to act. They cannot afford the usual telephone calls, consultations, and briefings.

President Obama has one crucial lever he can activate immediately, as was done in the case of deposed Ukrainian Viktor Yanukovich: identify, freeze, and disclose stolen assets hidden in the West. Experts such as former ambassador to Russia, Michael McFaul, and foreign-policy analyst Anne Applebaum, among many others, have called for the targeting of the overseas assets of Putin and his ruling elite. This advice has been seconded by members of Congress with experience in Russian affairs.

President Obama: Act and act now! There is no need to establish Russian violations of international treaties. Putin has already breached the Budapest Memorandum on Security Assurances of December 1994, the Russian-Ukrainian Friendship Treaty of 1997, and the Sevastopol Naval Base Agreement of 1997.

The U.S. Congress, against Obama’s wishes, passed the Magnitsky Act, to deny visas and freeze foreign assets, for Russian officials deemed responsible for lawyer’s prison death. It was meant to apply to tax and prison officials at relatively low levels. In the case of the Crimean invasion, we know that Putin himself has illegally breached international agreements by invading another sovereign nation in violation of the 1994 and 1997 treaties. Rather than applying Magntisky-like sanctions on low-level officials, that can be applied against Putin himself.

The United States may have lost its standing in world diplomatic circles, but it remains the world’s banking behemoth that no one is willing to cross. With the dollar standard, no country or bank, no matter how large, is prepared to jeopardize its relations with the U.S. Treasury, Federal Reserve, and Justice Department. The independent Swiss dropped their hallowed bank secrecy dating back to the Nazi threat in the face of U.S. pressure to disclose the accounts of U.S. tax scofflaws. After the Swiss caved, so did virtually all other tax havens. The U.S. government could not be in a better position to ferret out the overseas assets of Putin and his fellows.

Putin’s KGB-state kleptocracy has 111 billionaires. Russia’s kleptocrats uniformly belong to Putin’s inner circle. They are owners of nominally private companies, members of his administration, or directors of state enterprises. These oligarchs operate behind a fog of secrecy and obfuscation that defy detection. International accounting firms have learned not to ask too many questions if they want to earn Russian money.

Among these kleptocrats, Vladimir Putin could well be the richest, but his wealth is carefully hidden. It is taboo and dangerous even to talk about. Forbes has not been able to estimate his fortune.

Russian kleptocrats, Putin included, face a problem of their own making. They deliberately constructed a society that has no rule of law, other than the whim of the ruling circle. This means that their own wealth is not secure at home. Political fortunes change. Insiders may antagonize someone who is more influential or lose a turf battle. Their only choice is to hide their wealth abroad in foreign bank accounts or in other assets such as real estate. They send their wives and children abroad. Their children are building up human capital in the best and most expensive schools and universities in the west. Their wives or mistresses live in luxury in the safety of Germany, France, or Switzerland. It is not cheap to pay for such things.

Putin's kleptocrats must be closely watching the travails of Ukraine's deposed president, Viktor Yanukovich, and his "family." His assets along with those of twenty of his "family" have been frozen by Austria and Switzerland. Yanukovich lost what little credibility he had when normal Ukrainians viewed his sumptuous palaces outside of Kiev.

The Russian people understand that their kleptocrats live like Yanukovich. Muscovites tolerate daily traffic jams, as the ruling elite stops traffic as they can rush about Moscow. But the Russian people have no proof. They do not know the extent of high-level corruption and its incredible magnitude. No telling what they will do if proof, albeit bitterly contested by the state media, were delivered to them by the international banking community?

Outsiders do not understand that Putin and his kleptocrats do not really care about Mother Russia. They use Russian nationalism and territorial expansion to solidify their power and wealth, for their personal interests, not out of patriotism. They worry little about economic sanctions. Even with a weakened economy, there is still plenty to steal. U.S. businessmen have learned the bitter lesson – after their investments have been confiscated by oligarchs – that no one in the ruling elite really cares. They only care about their personal power and wealth, which means they must do what Putin wants, not what is best for Russia or for their companies.

If Putin's kleptocrats suffer the same fate as Yanukovich, they have lost what is dearest to them.

The international financial community could start with one of Putin's closest business associates, one Gennady Timchenko (currently the world's 61st most wealthy individual), Timchenko is a citizen of Finland who lives in Switzerland. The rumor mill has it that Timchenko manages Putin's foreign assets. He could be brought in to testify as a Finnish citizen. If I were Timchenko, I'd watch my back.

We have less than half a day before Russian troops storm the barracks of Ukrainian troops in the Crimea unless they surrender. Once shooting begins, what happens next is unpredictable. A word of warning to Putin: Consider the patriotic fervor of the Maidan demonstrators. They will make for tough partisans in a Russia-occupied east and south Ukraine. The Chechens currently operating in Syria may wish to exact their revenge on Putin by joining them.

Russian independent sources and even Germany's level-headed Angela Merkel openly wonder whether Putin has lost touch with reality. He may have made the biggest mistake of his life. He makes decisions with no checks and balances. If his associates see him as

jeopardizing their own wealth, they may figure a way to remove him. The Russian people cannot get rid of him, but his palace guard can.