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THE KREMLIN PLAYBOOK 2

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Case Study

The Netherlands

The Netherlands might not come to mind as the most obvious candidate for a study on Russian influence in Europe. A founding NATO and EU member, it actively participates in NATO military operations and maintains a strong stance on sanctions against Russia. It has suffered greatly at the hands of Russian actions, from the tragic shootdown of flight MH17 that killed 193 Dutch citizens in July 2014 to a cyberattack in April 2018 against the Organization for the Prohibition of Chemical Weapons (OPCW) based in The Hague. Notwithstanding these recent developments, the Netherlands' commercial relationship with Russia dates back to the nineteenth century when "Dutch entrepreneurs were willing to invest in Russian ventures and part of foreign Russian gold reserve was kept in the Netherlands. By January 1, 1914, Russian foreign investments in the Netherlands had amounted to 8 million gold roubles."¹ A century later, the bilateral economic relationship serves the same purpose, making the Netherlands a largely unnoticed, unappreciated, and therefore underestimated enabler for Russian influence and its oligarchs, particularly in the provision of services on tax avoidance through incorporation. Dutch central bank members of a special committee of the International Monetary Fund have indeed highlighted the country's prominent role in international corporate tax avoidance.²

The Netherlands is a free and open democracy with an independent judiciary and a strong legal framework for anti-corruption. It is vocal on the deterioration of human rights and civil society in Russia. It is consistently ranked one of the "cleanest" countries in Transparency International's Corruption Perception Index, though its score has decreased slightly since 2009.³ However, when it does occur, corruption is not heavily prosecuted in the Netherlands and the penalties in the legislation for corruption do not act as a strong deterrent. There also appears to be a gap between the legislation on and the enforcement of anti-corruption and anti-money laundering measures. A recent survey of business owners in the Netherlands shows that 23 percent believe bribery and corrupt business practices occur widely in the country.⁴ In addition, the OECD has repeatedly

- 1 "Russian-Dutch relations before 1917 – History of the Russian-Dutch relations," Embassy of the Russian Federation in the Netherlands, https://netherlands.mid.ru/web/netherlands-en/russian-dutch-history/-/asset_publisher/b3L1jei38qRk/content/russian-dutch-relations-before-1917?redirect=%2Fweb%2Fnetherlands-en%2Frussian-dutch-history&inheritRedirect=true.
- 2 Pim Claassen and Gerrit van den Dool, "The effects of including SPEs on BoP and FDI statistics" (paper presented at meeting of IMF Committee on Balance of Payments Statistics, Muscat, Oman, October 28–30, 2013), <https://www.imf.org/external/pubs/ft/bop/2013/13-15.pdf>.
- 3 "Corruption Perceptions Index 2017," Transparency International, February 21, 2018, https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table.
- 4 "Corruption perception by country," EY EMEIA Fraud Survey, 2017, <https://fraudsurveys.ey.com/emeia-fraud-survey-2017/detailed-results/corruption-perception-by-country/>.

noted that Dutch authorities have been lenient in their approach to prosecuting foreign bribery and holding corporates accountable for wrong-doing abroad.⁵

The Netherlands ranks as the 14th largest contributor to global financial secrecy (partially due to its lack of transparency on beneficial ownership in trusts and limited partnerships), a significant drop from 2015 when it ranked 41st.⁶ It is the largest conduit for tax haven funds in the world, with 23 percent of all offshore investments flowing through the country in 2017.⁷ And this profile is exactly what makes it so attractive to companies and wealthy individuals in the world—in particular Russia—and has attracted so much investment in recent years. The Netherlands is Russia’s second-largest investment market, and Russian companies’ assets in the country grew from €13.8 billion in 2007 to €96 billion in 2017, or 13 percent of nominal Dutch GDP.⁸

The Netherlands has flexible company laws and an attractive tax regime that offers an appealing combination for investors looking to decrease (or avoid) their tax burden or adapt (or obscure) their ownership structure. The Netherlands is a hub for incorporation and registration, including for Russian companies operating across Europe—an observation we noted in the first *Kremlin Playbook*, where many energy companies involved in Central and Eastern Europe had Dutch incorporation. Lukoil, Rosneft, Gunvor, and Novatek (among others) all have subsidiaries registered in the Netherlands that operate across Europe.⁹ Gazprom alone has 25 subsidiaries registered in the country. Many multinational corporations also go through the Netherlands to invest in Russia (e.g., ExxonMobil, Royal Dutch Shell, Chevron), and some of the largest Russian firms own tens of billions of assets in the Netherlands, such as Gazprom and Rosneft.

Incorporation is typically done through a particular type of company—nicknamed letterbox companies—that serves as a conduit to park assets or transfer funds from one place to another (usually a tax haven). Though they are incorporated in the Netherlands, the bulk of these companies’ activity is usually concentrated outside of the country. In 2017, there were an estimated 14,000 letterbox companies registered in the Netherlands. In 2013, 83 percent of all incoming and 78 percent of all outgoing fo-

5 OECD Working Group on Bribery, *The Netherlands: Follow-up to the Phase 3 Report & Recommendations* (Paris, France: Organization for Economic Co-operation and Development, 2015).

6 As a reference, Switzerland ranks first, the United States second, and the Cayman Islands third in this measurement. “Financial Secrecy Index – 2018 Results,” Tax Justice Network, January 30, 2018, <https://www.financialsecrecyindex.com/introduction/fsi-2018-results>.

7 Javier Garcia-Bernardo, Jan Fichtner, Frank W. Takes, and Eelke M. Heemskerk, “Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network,” *Scientific Reports* 7, no. 6246 (July 2017): 6. See also: Daniel Boffey, “Netherlands and UK are biggest channels for corporate tax avoidance,” *The Guardian*, July 25, 2017, <https://www.theguardian.com/world/2017/jul/25/netherlands-and-uk-are-biggest-channels-for-corporate-tax-avoidance>.

8 Boffey, “Netherlands and UK are biggest channels.”

9 Interestingly, the Netherlands appears as the largest foreign investor in Bulgaria. However, upon closer inspection, Russian companies are ultimately responsible for between 50 and 60 percent (on average) of these transactions—they just happen to be made from subsidiaries registered in the Netherlands.

reign investments circulated through this type of company.¹⁰ More than \$4 trillion in FDI stocks are held in the Netherlands today—twice the amount recorded in 2008—partly through these letterbox companies. A 2012 OECD report faulted the Netherlands for not proactively investigating and prosecuting these companies, which are often the subject of foreign bribery allegations.¹¹ A 2015 follow-on report recognized positive reforms, but also noted a lack of proactive detection efforts regarding letterbox companies and their involvement in possible money laundering operations.¹²

Although the Netherlands does not fit the definition of a classic tax haven,¹³ it is probably the biggest tax treaty jurisdiction in the world and functions as a de-facto conduit offshore financial center.¹⁴ A combination of no withholding taxes on outgoing interest, dividends, and royalty payments as well as a network of double taxation treaties with special exemptions can reduce the tax burden for foreign multinationals. The Dutch corporate income tax rate¹⁵ is not abnormal when compared with other European countries. However, the Netherlands has a system of individual tax rulings that allow corporations to negotiate their own tax deals. This system is a potential pathway for tax avoidance that can harm fiscal conditions in another country.¹⁶ The companies using the Dutch incorporation system and letterbox companies also benefit from a participation exemption in the tax code that treats parent companies and subsidiaries as separate entities and exempts them from reporting profits in two different locations. Some of the large companies whose subsidiaries are registered in the Netherlands can therefore choose to be taxed there, where corporate taxes are lower—and can be negotiated with the government—and avoid being taxed again in their home country (for example, in Russia).

Incorporation laws and tax regulations, in turn, allow foreign companies to conduct mergers and acquisitions under attractive tax conditions, with access to international capital markets and opportunities to obscure the ultimate beneficiary of the mergers and acquisition—which can be useful if facing sanctions. Recent murky acquisitions by Russian companies in Central and Eastern Europe (including the Czech Republic, Bulgaria, and Montenegro), as well as the money-laundering scandals of Danske Bank and ING, show the

10 Esme Berkhout, *Nederland Belastingparadijs* (The Hague, Netherlands: Oxfam Novib, 2016), 15.

11 “Netherlands must significantly step up its foreign bribery enforcement, says OECD,” Organization for Economic Co-operation and Development, January 8, 2013, <http://www.oecd.org/daf/anti-bribery/netherlandsmustsignificantlystepupitsforeignbriberyenforcementsaysoced.htm>.

12 OECD Working Group on Bribery, *The Netherlands*.

13 Such as the British Virgin Islands, Panama, Bermuda, Belize, and others. These tax havens have zero or very low corporate income tax and have no withholding taxes. There is very low transparency into corporate accounts, potentially allowing for tax evasion to remain unnoticed.

14 Through the conduit arrangement, companies registered in the Netherlands are used to route transactions from another jurisdiction in order to reduce the tax burden in that other jurisdiction.

15 20 percent on generated profit under €200,000 and 25 percent for profit over €200,000. “Corporation tax,” Government of the Netherlands, <https://www.government.nl/topics/taxation-and-businesses/corporation-tax>.

16 Michael van Dijk, Francis Weyzig, and Richard Murphy, *The Netherlands: A Tax Haven?* (Amsterdam, Netherlands: Centre for Research on Multinational Corporations [SOMO], 2006), 62.

continued lack of capacity of oversight authorities. Widespread complacency has allowed enormous suspicious financial flows to transit in and out of the European financial system.

Foreign firms are also able to retain important assets in the Netherlands while using it as a hub for investments throughout Europe (e.g., Lukoil), a conduit for funds that are ultimately headed for offshore tax havens, or for round-tripping (the channeling of local funds abroad to repatriate some or all of them, a tactic sometimes used in money-laundering activities).¹⁷ Many of these investments are funds that flow between subsidiaries and headquarters or between special purpose entities (conducting share buybacks and swaps) rather than physical or “brick-and-mortar” investments in the Netherlands. It is therefore not surprising that the Netherlands became the number one private equity market by deal value in 2018 (reaching a total value of £23.5 billion).¹⁸

As complex structures have proliferated and monetary flows increased, there has been a higher demand for corporate service providers (CSPs; e.g., incorporation agents, accountants, and lawyers), which service and support incorporation and investment structures. Today, the CSP sector in the Netherlands includes 14,000 letterbox companies, through which an approximate \$4.2 trillion transit each year.¹⁹ Most of these shell companies are in turn managed by trusts (approximately 240 in 2016). The average size of trusts has grown, prompting calls by the central bank for more instruments to control and regulate them.²⁰ A 2018 draft law has proposed to regulate the CSP industry by requiring more extensive background checks on clients, though this risks pushing business into the shadow CSP sector (now potentially larger than the official sector, though there are no official statistics on this).²¹ Though Dutch CSPs manage trillions of dollars, they do not appear to be well aware of the potential for illicit financing or of their money-laundering risks (especially through limited partnerships).²²

While the size of investments circulating through the Dutch economy and its shell companies is staggering, the rewards for the state do not seem to match those le-

- 17 Round-tripping: “The practice of earning profit by borrowing on overdraft and relending in the money markets; (later also) the practice of investing capital abroad and then reinvesting it in its country of origin, in order to take advantage of favourable tax rates, etc., given to foreign investors.” “Round-tripping,” English Oxford Living Dictionaries, <https://en.oxforddictionaries.com/definition/round-tripping>.
- 18 Javier Espinoza, “UK toppled as Europe’s biggest private equity market,” *Financial Times*, December 16, 2018, <https://www.ft.com/content/72ef5dbe-ff88-11e8-aebf-99e208d3e521>.
- 19 Rodrigo Fernandez, “Dutch efforts to combat letterbox companies have no effect,” SOMO, March 29, 2018, <https://www.somo.nl/dutch-efforts-combat-letterbox-companies-no-effect/>. See also: Bart Meijer, “Tax treaties create \$4.2 trillion cash flow through Netherlands,” Reuters, December 13, 2018, <https://uk.reuters.com/article/us-netherlands-tax/tax-treaties-create-4-2-trillion-cash-flow-through-netherlands-idUKKBN1OC28C>
- 20 Fernandez, “Dutch efforts to combat letterbox companies.”
- 21 Bram Logger and Parcival Weijnen, “Witwassen in een flexkantoor,” *De Groene Amsterdammer*, June 6, 2018, <https://www.groene.nl/artikel/witwassen-in-een-flexkantoor>.
- 22 The Dutch Central Bank has highlighted the financial risks (money laundering, lack of information on beneficial ownership) associated with limited partnerships as “exceptionally high.” Tax Justice Network, *Narrative Report on the Netherlands* (Tax Justice Network, 2018), 3.

vels. Though trillions of dollars circulate through companies each year, the Dutch state only received around \$1 billion in tax revenue from these flows. In 2013, revenue from investment flows reached around €4 billion, or 0.7 percent of GDP.²³ But the desire to remain an investment destination appears to outweigh the state's desire for higher tax revenues. In late 2017, the Dutch government abolished the tax on dividends at a cost of approximately €1.4 billion for the Dutch budget.²⁴

Investments represent the bulk of the bilateral economic relationship between the Netherlands and Russia, and this relationship is so important it bears repeating: the Netherlands is Russia's second-largest trading partner and is the second-largest investment market for Russia (though inward FDI has decreased since 2014). It is also important to note that outgoing FDI stocks from the Netherlands to Russia have grown from €20 billion in 2006 to close to €100 billion in 2017, which could be partly explained by the repatriation of capital from Russian companies' Dutch subsidiaries.

More traditional strategic sectors are also part of the bilateral economic relationship (trade turnover reached around \$32 billion, or almost 5 percent of Russia's total trade volume, in 2017), particularly concentrated in the energy sector—where most of the Russian economic footprint is focused. The Netherlands has sought to become a major oil and gas distribution hub in Europe and requires important energy reserves to preserve this position.²⁵ Gazprom is a crucial ally in this task—particularly as Dutch energy production has fallen and European countries have pledged to move away from fossil fuels toward renewable energy. Despite the significant increase in tensions with Russia since the introduction of sanctions over Crimea, Dutch gas imports from Russia rose from 6.4 billion cubic meters (bcm) in 2014 to 14 bcm in 2016, or around a third of the country's gas consumption (before falling sharply to below 5 bcm in 2017).

On average, Russian gas has made up only around 14 percent of the Netherlands' consumption through the Nord Stream pipeline and Germany. However, the ongoing decline of Dutch domestic natural gas production would make the Netherlands much more dependent on foreign suppliers in the near future (including through the planned Nord Stream 2 pipeline). Gazprom is also trying to stake out a higher domestic gas market share in the Netherlands; the company has stated that it wants to obtain a 15 percent market share in the Netherlands in the next few years.²⁶

23 Arjan Lejour and Maarten van't Riet, *Bilaterale belastingverdragen en buitenlandse investeringen* (The Hague, Netherlands: CPB Netherlands Bureau for Economic Policy Analysis, 2013).

24 Robert Giebels, "De dividendbelasting is afgeschaft, maar niemand in Den Haag weet waarom," *de Volkskrant*, November 3, 2017, <https://www.volkskrant.nl/nieuws-achtergrond/de-dividendbelasting-is-afgeschaft-maar-niemand-in-den-haag-weet-waarom~b4693074/>.

25 Dutch businesses have increasingly complained to the government and the European Union about the prolongation of the economic sanctions against Russia. See Caroline de Gruyter, "View from The Hague: An eternal balancing act," European Council on Foreign Relations, October 14, 2016, https://www.ecfr.eu/article/commentary_view_from_the_hague_an_eternal_balancing_act7146.

26 David Bremmer, "Nederlander wil niet langer Russisch gas," *Algemeen Dagblad*, July 25, 2014, <https://www.ad.nl/buitenland/nederlander-wil-niet-langer-russisch-gas~aeb6c4e5/>.

Gazprom also has important ties to energy giant Royal Dutch Shell and state-owned gas distributor Gasunie, Europe's biggest gas distribution company (accounting for 25 percent of the total gas sales in Europe).²⁷ Shell has lobbied U.S. and EU policymakers for their support for the Nord Stream projects (transporting Russian gas through the Baltic Sea to Germany and thus bypassing Ukraine and Central Europe).²⁸ Gasunie and Gazprom signed a memorandum of understanding on strategic cooperation in 2013. Marcel Kramer, Gasunie's former CEO, sits on the board of Gazprom and was in charge of the now-defunct South Stream project (although this project is being revitalized through TurkStream, which sends Russian gas to Turkey and bypasses Ukraine).

Russian gas also makes up 9 percent of the trading portfolio of Gasunie's former subsidiary, GasTerra, which is now 50 percent owned by the state, 25 percent by Shell, and 25 percent by ExxonMobil. If domestic output in the Netherlands continues to fall, especially from the giant Groningen field,²⁹ Gasunie and GasTerra would become increasingly dependent on trading Russian gas. In addition, they would directly benefit from Nord Stream 2's new gas supplies in Northwestern Europe as they currently operate the biggest networks of pipelines in Germany, Belgium, and the Netherlands. This would also directly benefit the Dutch public finances as Gasunie allocates an annual dividend, which in 2017 alone was €259 million (down from €362 million in 2014). The Netherlands will thus likely attempt to preserve its position as the most liquid gas hub in continental Europe, and Gazprom can help them do so.

The Anglo-Dutch oil major Royal Dutch Shell is the most closely intertwined with Russia. In 2017, the company celebrated 125 years of doing business in Russia, prompting Russian Prime Minister Medvedev to release a letter stating, "Shell is firmly integrated into our national economy and is one of our biggest foreign investors."³⁰ Shell is heavily invested in the Russian gas exploration and production sector, specifically the \$22 billion Sakhalin-2 project that was completed in 2009, a large infrastructure plan comprising gas fields, offshore platforms, pipelines, and an LNG plant in Siberia. Interestingly, Shell has furthered its investments in Russia despite being forced by the Russian government in 2007 to reduce its majority stake

27 Gasunie holds a 9 percent stake in Nord Stream while Shell owns a 10 percent stake in the planned Nord Stream 2.

28 "Polish Briefing: Nord Stream 2 lobbyists spent almost \$1,5 million in the US," *Biznes Alert*, August 1, 2018, <http://biznesalert.com/polish-briefing-nord-stream-2-lobbyists-spent-almost-15-million-in-the-us/>. See also: Andrew Rettman, "Nord Stream 2: Business unusual," *EUobserver*, June 7, 2016, <https://euobserver.com/business/133720>.

29 Due to earthquakes and damage to houses and infrastructure, production is being lowered at the Groningen field, first lowering annual extraction from 21 bcm/yr to 12 bcm/yr and then to zero in the coming years.

30 John Donovan, "Shell Company Firmly Integrated in Russian Economy, PM Medvedev Says," Royal Dutch Shell Group, June 22, 2017, <http://royaldutchshellgroup.com/2017/06/22/shell-company-firmly-integrated-in-russian-economy-pm-medvedev-says/>.

in Sakhalin-2 from 55 to 27.5 percent, allegedly for environmental concerns and after threats of having its license to operate in Russia revoked. Shell transferred part of its stake to Gazprom.^{31,32}

While the Netherlands' energy relationship with Gazprom is most visible in these large investments, Gazprom's ties to Dutch municipalities may not be as well understood and could have an outsized impact: 30 out of 380 local municipalities have their own separate gas supply contracts with Gazprom (municipal authorities are free to negotiate independently of the central government), creating potential local dependencies on Russian energy. In turn, local politicians could pressure the central government not to jeopardize this relationship with Gazprom, and by extension, the Kremlin.³³

Though natural gas has been the main economic tool Russia has used for political influence in Europe, the biggest energy export revenue comes from the sale of crude oil; despite a gradual shift to Asia, more than 70 percent of Russia's crude goes to Europe.³⁴ The Netherlands is the biggest European importer of Russian oil (accounting for almost 20 percent of EU oil imports from Russia in 2017) because Dutch oil terminals on the North Sea serve as Russia's biggest oil reexporting hubs. Before the sanctions imposed in 2014, Russia traded most of its crude oil via two companies, Gunvor (partially owned by Genadii Timchenko, who is under U.S. sanctions and allegedly close to Vladimir Putin) and Lukoil's subsidiary Litasco, both headquartered in Switzerland. Gunvor is connected to the Netherlands through two subsidiaries: Gunvor International B.V., which appears to be set up for tax optimization, and Gunvor Petroleum Rotterdam B.V., which runs its refinery operation in the port of Rotterdam.³⁵

Russia has also increased its business with the Dutch-registered energy trader Vitol, which in 2015 posted a profit of \$1.6 billion and traded 6.5 percent of the world's oil, making it the largest independent trader in the world.³⁶ Vitol, together with Glencore, has

31 "Baltic LNG: Natural gas liquefaction plant in the Leningrad Region," Gazprom, <http://www.gazprom.com/about/production/projects/lng/baltic-lng/>.

32 Abrahm Lustgarten, "Shell shakedown," *Fortune*, February 1, 2007, http://archive.fortune.com/magazines/fortune/fortune_archive/2007/02/05/8399125/index.htm.

33 Daniel van Harmelen, "Apeldoorn buys gas from Russian Gazprom," *ApeldoornDirect*, January 4, 2018, <https://www.apeldoornDirect.nl/stad/apeldoorn-koopt-gas-van-russische-gazprom-20180104/>.

34 "Russia exports most of its crude oil production, mainly to Europe," U.S. Energy Information Administration, November 14, 2017, <https://www.eia.gov/todayinenergy/detail.php?id=33732>.

35 According to the U.S. Department of Treasury, Putin has investments in Gunvor, and he "may have access to Gunvor funds." See "Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine," U.S. Department of the Treasury, March 20, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx>.

36 Javier Blas and Andy Hoffman, "Inside Vitol: How the World's Largest Oil Trader Makes Billions," *Bloomberg*, June 1, 2016, <https://www.bloomberg.com/news/features/2016-06-01/giant-oil-trader-vitol-makes-billions-in-volatile-times>. Despite Dutch incorporation, Vitol is owned through two Luxembourg letterbox companies. In 2013, it paid zero dollars in taxes despite posting a profit of \$837 million; in 2017, Vitol reported a revenue of \$181 billion USD.

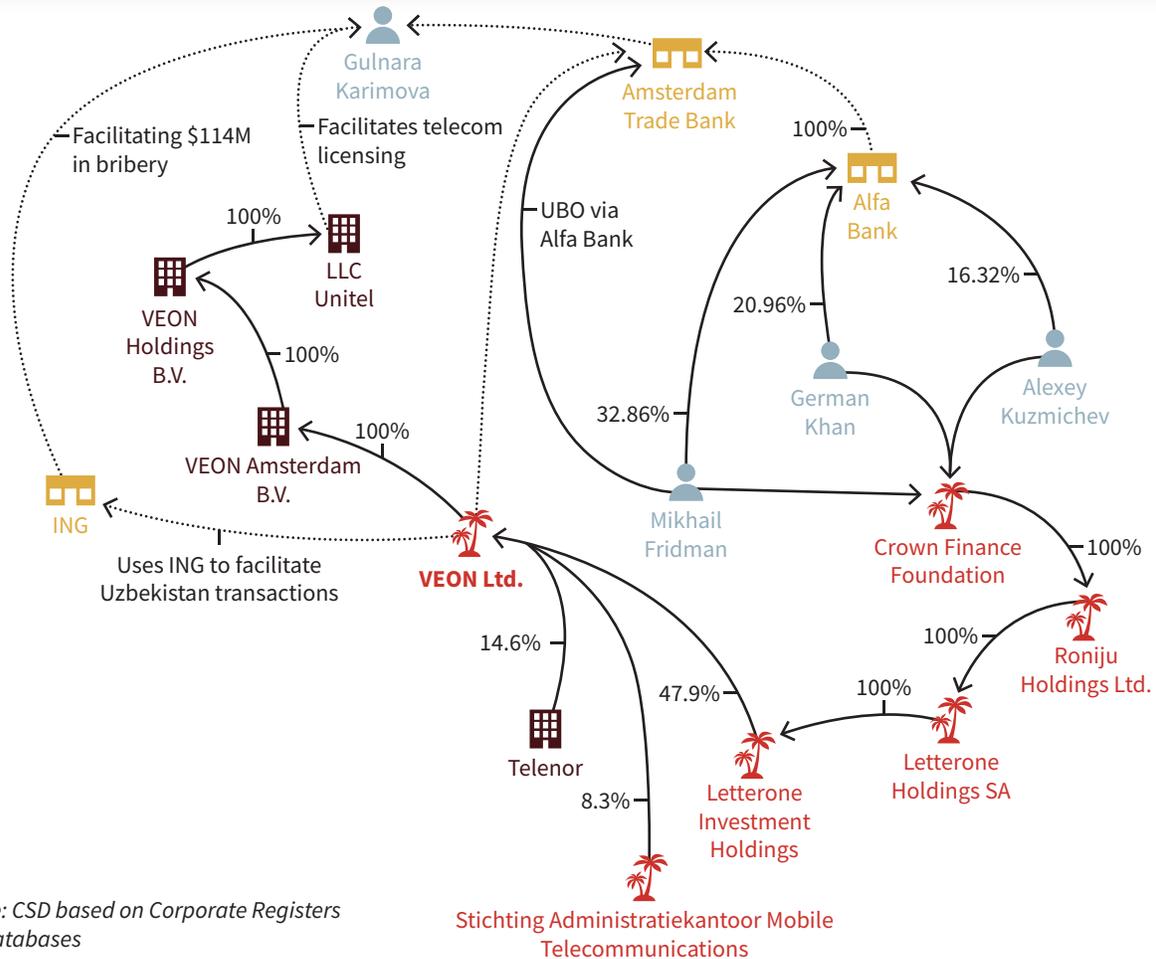
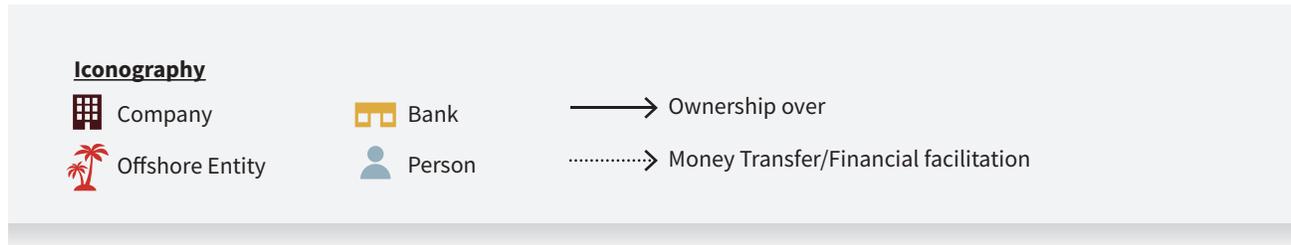
been bankrolling Russia's largest oil producer Rosneft under long-term cash-for-oil deals (whereby traders provide liquidity to cash-strapped state-owned companies in return for future long-term deliveries). Rosneft raised \$40 billion through similar deals between 2012 and 2015, making them an important fundraising tool for the company.³⁷ Over the years, Vitol has signed similar deals with Kazakhstan and Iraq and has been accused of circumventing sanctions on Iran and Iraq.³⁸ In April 2017, the company signed a long-term deal for the shipment of 300,000 metric tons (400 million cubic meters) of liquified natural gas (LNG) from Gazprom starting in 2018.³⁹ Although marginal in terms of volume, this move signals that Russia could use a network of dependent oil and gas traders to mask its future expansion on the European LNG market, hence challenging alternative suppliers.

The Russian economic footprint in the Netherlands has also expanded to the telecommunications sector, a pattern previously seen in other countries in Europe such as Italy. One of the most important players has been the Russian firm VEON (previously VimpelCom), which established headquarters in Amsterdam in 2010.⁴⁰ Globally, VEON is the sixth largest mobile network operator with 214 million customers, 80 percent of which are located in Russia and Italy. Like other Russian firms, VEON benefits from the Netherlands's lucrative tax model: 8.3 percent of the company is owned by the Stichting Administratiekantoor Mobile Telecommunications, a vehicle resembling a foundation that can operate as a trust, is exempt from corporate tax, and is headed by a Board of Directors to which the owners of the assets transfer full authority over the shares.⁴¹ LetterOne, an entity co-founded by Russian oligarch Mikhail Fridman in 2016, transferred 8.31 percent of the shares to the Stichting Administratiekantoor Mobile Telecommunications trust.⁴² LetterOne management claims the trust will be fully independent, but according to experts and given that those trusts act as reserve funds that become untaxable, it is possible that the main purpose of the transaction is to ensure that Fridman and his business partners retain full control over the company without breaking anti-monopoly laws. It is also possible it serves as a way for Fridman to protect his assets.

The Norwegian telecom giant, Telenor, also owns a 14.6 percent stake in VEON, and the two partners have worked together in emerging markets including Uzbekistan,

- 37 Sheppard, David, "Vitol extends cash-for-crude deal with Kazakhstan to \$5bn," *Financial Times*, September 18, 2017, <https://www.ft.com/content/6fc02f7c-9a19-11e7-a652-cde3f882dd7b>
- 38 Michael Stothard, "Total and Vitol fined in Iraq corruption case," *Financial Times*, February 26, 2016, <https://www.ft.com/content/c46bb45a-dc7a-11e5-98fd-06d75973fe09>.
- 39 Muhsin Tiryakioglu, "Swiss-Dutch Vitol to receive LNG from Gazprom from 2018," AA Energy, April 21, 2017, <https://www.aa.com.tr/en/energy/natural-gas/swiss-dutch-vitol-to-receive-lng-from-gazprom-from-2018/2723>.
- 40 VEON offers digital and connectivity products such as communications and network infrastructure, mobile operations, and cloud services. See: "Operations," VEON, <https://veon.com/whoweare/Operations/>.
- 41 Igor Korolev, "Владельцы «Альфа-групп» спрятали свои акции «Билайна»," *Cnews.ru*, February 4, 2016, http://www.cnews.ru/news/top/2016-04-02_vladeltsy_alfagrupp_spryatali_svoi_aktcii_bilajna.
- 42 Ibid.

VEON: Complex Ownership, Tax Optimization, and Facilitation Networks



Source: CSD based on Corporate Registers and Databases

where a major corruption scandal involving VEON led to the firing of two Telenor executives and a gradual divestment by the Norwegian company from VEON. VEON (then still VimpelCom) settled court cases worth \$835 million with the Dutch state and the U.S. Department of Justice over the Uzbekistani bribery scandal.⁴³

The VEON example also offers a window into the importance of a country’s financial sector as a conduit to further Russian influence and interests. Amsterdam Trade Bank (a small bank making over 40 percent of its total profits in Russia), which is owned by Fridman’s Alfa Group and registered in the Netherlands, was also involved

43 Agence France-Presse, “VimpelCom pays \$835m to US and Dutch over Uzbekistan telecoms bribes,” *Guardian*, February 19, 2016, <https://www.theguardian.com/world/2016/feb/19/vimpel-com-pays-835m-to-us-and-dutch-over-uzbekistan-telecoms-bribes>.

in the Uzbekistan scandal as the alleged executor of the bribes on behalf of VEON.⁴⁴ Amsterdam Trade Bank has also been implicated in one of the largest money-laundering scandals in recent years known as the Russian Laundromat, a complex criminal financial operation that moved huge amounts of funds out of Russia through over a hundred bank accounts throughout Europe.⁴⁵ The bank allegedly helped Russian-owned companies channel funds from Moldova and Latvia to safe havens in Western Europe.⁴⁶ It is believed that companies and individuals in the Netherlands received over \$68 million of the illicit funds implicated in the scandal.⁴⁷ In December 2017, the Dutch financial crimes prosecutor (FIOD) opened an investigation into possible money laundering committed by Amsterdam Trade Bank.⁴⁸ FIOD claims that the bank withheld information about unusual transactions by clients and did not conduct sufficient background checks. The bank has said that this “investigation focuses on a client portfolio that ceased to be part of the bank’s business some years ago” and it has since “completely” shifted its strategy.⁴⁹

The largest Dutch financial institution, ING, also settled for its involvement in the Uzbek case for not identifying or reporting the suspicious transactions made from ING accounts, including a \$55 million transfer to Gulnara Karimova, the daughter of the former president. The bank agreed to pay a €775 million fine in 2018 as part of a larger case accusing ING of violating laws on anti-money laundering and financing terrorism “structurally and for years.”^{50,51}

It thus appears the Dutch financial sector may be susceptible to illicit transactions and is an attractive location for Russian companies and funds. Between 2006 and 2014, 31 percent of all suspicious transaction reports sent to national financial intelligence units (FIUs) in the European Union originated in the Netherlands.⁵² This high number can be partly explained by the fact that all transactions of over €2,000 must be reported to the Dutch FIU, which then assesses whether the transactions constitute

44 Aleya Begum Lonsetteig, “Amsterdam Trade Bank under new money laundering investigation,” *Global Trade Review*, December 20, 2017, <https://www.gtreview.com/news/europe/amsterdam-trade-bank-under-new-money-laundering-investigation/>.

45 “The Russian Laundromat Exposed,” *Organized Crime and Corruption Reporting Project*, March 20, 2017, <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/>.

46 Ibid.

47 Ibid.

48 Aleya Begum Lonsetteig, “Amsterdam Trade Bank under new money laundering investigation.”

49 Ibid.

50 Toby Sterling and Bart H. Meijer, “Dutch bank ING fines \$900 million for failing to spot money laundering,” *Reuters*, September 4, 2018, <https://www.reuters.com/article/us-ing-groep-settlement-money-laundering/dutch-bank-ing-fined-900-million-for-failing-to-spot-money-laundering-idUSKCN1LK0PE>.

51 Ibid.

52 However, it is unclear what share of these transactions is related to Russian individuals or companies. Financial Intelligence Group, *From Suspicion to Action: Converting financial intelligence into greater operational impact* (Luxembourg: European Union Agency for Law Enforcement Cooperation, 2017).

suspicious transaction reports (STRs). Only 15 percent of unusual transfers are classified as STRs by the FIU, leading to a very small number of money-laundering investigations.⁵³ While not all suspicious transactions are illicit, it suggests that the Netherlands holds a high concentration of activity that necessitates greater scrutiny.

With such a significant Russian economic presence in the Netherlands, one could anticipate substantial Russian political influence in the Netherlands. However, Russian political influence is not particularly visible in the country on a daily basis, but it can be detected at specific moments in which political pressure is helpful to the Kremlin's agenda. For example, the far-right Party for Freedom (PVV, which holds 20 out of 150 seats in the Dutch House of Representatives) is not actively pro-Russian but can serve Moscow's interests as it aims to erode confidence and support in the European Union. The Dutch Socialist Party is a more visible pro-Kremlin voice (though it holds only 14 seats in parliament), having opposed both the EU Constitution in 2005 (the Netherlands voted against it in a referendum) and the EU-Ukraine Association Agreement in 2016 (it was also defeated in a referendum).

Other Dutch political parties, however, have been more resolute on Russia and the European Union's sanctions regime since 2014 (even the PVV has not called for the lifting of sanctions), though most have concentrated their efforts on preserving the Netherlands as a prime investment destination.⁵⁴ This is in spite of the Netherlands becoming a target of Russian hybrid attacks, including attempted cyberattacks on the Dutch Safety Board after it concluded Russia was at fault for the downing of flight MH17 in 2015 and most recently, on the OPCW after it concluded that Russian agents had used the nerve agent Novichok in the United Kingdom in 2018.^{55,56}

A high-profile influence operation took place in 2016 around the Dutch referendum to approve the European Union's Association Agreement with Ukraine, when a group of "Ukrainian immigrants" launched a public campaign (i.e., public meetings, television appearances, etc.) to oppose the agreement. The group worked in collaboration with Harry van Bommel, a former Dutch Socialist party member and foreign affairs spokesperson, but it was later discovered the individuals were Russian and not Ukrainian or from Russian-controlled separatists regions in Eastern Ukraine.⁵⁷ Dutch intelli-

53 The Dutch authorities also do not report the size of the STRs, making it difficult to estimate the impact of money laundering on the overall economy.

54 Caroline de Gruyter, "View from The Hague: An eternal balancing act," European Council on Foreign Relations, October 14, 2016, https://www.ecfr.eu/article/commentary_view_from_the_hague_an_eternal_balancing_act7146.

55 "Hackers target Dutch Safety Board website, may be Russian link," *DutchNews.nl*, October 23, 2015, <https://www.dutchnews.nl/news/2015/10/hackers-target-dutch-safety-board-website-may-be-russian-link/>.

56 "How the Dutch foiled Russian 'cyber-attack' on OPCW," BBC, October 4, 2018, <https://www.bbc.com/news/world-europe-45747472>.

57 Andrew Higgins, "Fake News, Fake Ukrainians: How a Group of Russians Tilted a Dutch Vote," *New York Times*, February 16, 2017, <https://www.nytimes.com/2017/02/16/world/europe/russia-ukraine-fake-news-dutch-vote.html>.

gence officials also warned that foreign countries, including Russia, had tried to hack into government computer systems ahead of the 2017 elections.⁵⁸

In the past few years, the Netherlands has become increasingly aware of its role in large, complex financial flows that are ripe for abuse and transit to offshore centers. The government has announced plans to introduce a withholding tax on interest and royalty outflows to low-tax jurisdictions. It has strengthened oversight and due diligence requirements for trust services and plans to create a public register for ultimate beneficial ownership of all corporations.⁵⁹ These are welcome developments. But the Netherlands' proactive policy approach toward Russia's acts of aggression and violations of international law—the country has itself been on the receiving end of the most deadly and virulent attacks against its citizens and its democratic institutions—is only just a first step, and the economic environment continues to serve Russian financial interests. This dichotomy is difficult to understand. Funds originating from Russia but facilitated by the Dutch financial and CSP sectors could be used to inflict material damage onto Dutch citizens (financing influence campaigns, for example) but also to reduce the revenue available to the state. This is the true paradox of the enabler: in pursuit of economic gains, self-harm awaits.

- 58 Janene Pieters, "Russia Hacking Dutch Election a Warm-Up for Germany, France Interference: Report," *NL Times*, March 10, 2017, <https://nltimes.nl/2017/03/10/russia-hacking-dutch-election-warm-germany-france-interference-report>.
- 59 "Nader rapport Wet toezicht trustkantoren 2018," Rijksoverheid, March 16, 2018, <https://www.rijksoverheid.nl/onderwerpen/financiele-sector/documenten/kamerstukken/2018/03/16/nader-rapport-wet-toezicht-trustkantoren-2018>.