

Russia To Defend Traditional Values, Escape Financial Offshore Havens

by Rachel Douglas

Dec. 15—Russian President Vladimir Putin on Dec. 12 delivered his annual Message to the Federal Assembly, a *tour d'horizon* of domestic and foreign policy that is his most authoritative speech of the year. The speech covered a range of domestic and foreign issues, from Russian economic policy to the non-performance of the Medvedev government on key goals mandated by Putin; from non-action on his call of one year ago for a “de-offshore-ization” policy regarding Russian businesses, to money-laundering;¹ from the role of Russia as a defender of traditional values, to the activity of what he called “the immoral international” that provokes ethnic strife in Russia itself.

Russians are currently pondering and commenting on this year's Presidential Message as a comprehensive platform statement. State TV's Sunday-night Vesti Nedeli (News of the Week) program with Dmitri Kiselyov, Dec. 15, highlighted two elements of Putin's speech: Russia as a defender of traditional values, and the President's demand to get serious about drastically reducing the volume of Russian business transacted in offshore tax havens.

The Vesti Nedeli report led with this passage from Putin's speech: “We have always been proud of our country, but we do not lay claim to the label of a superpower, understood as laying claim to worldwide or regional hegemony... We shall seek to be leaders, defending international law, seeking respect for the national sovereignty, independence, and way of life of different peoples.”

As in his speech at the Valdai Club meeting this past September,² Putin lamented that “in many parts of the world, norms of morality are being revised, while national traditions and the distinctions of nations and culture are erased.” He upheld Russia as “defending tradi-

tional values,” which he called Russia's “conservative position.” Said Putin, “In recent years, we have seen attempts to force on other countries a supposedly more progressive model of development, [but,] have in fact brought retrogression, barbarity, and bloodshed. This has happened in a number of countries in the Middle East and North Africa, and this is how the dramatic situation took shape around Syria.”

Pirates of the Caribbean, Beware!

A second segment of Vesti Nedeli explained to viewers the mechanism of offshore tax-evasion and money-laundering, as done by Russian businesses on a massive scale. This is the “Pirates of the Caribbean” phenomenon, centered in British Overseas Territories, which has looted the Russian economy and strangled its growth potential.³

As a list of 41 major offshore jurisdictions scrolled on the TV screen, the narrator pointed out that most of them were “Anglo-Saxon” (British) territories or centered around the Benelux region, including havens nestled in such European locations as Liechtenstein. In his December 2012 Presidential Message, Putin had called for measures to be drafted for ending the role of the offshores in draining resources from Russia. In the same vein as his harsh criticism of the government, on several recent occasions, for failing to implement the package of domestic policy decrees he signed upon his inauguration in May 2012, Putin said that the job had not been done, and began to lay out specific measures:

“In last year's Address, I spoke about the challenges in relieving the economy of offshore activity. This is another topic to which I want to draw your attention and which we must return to today. Why is that? I will tell

1. “Putin Tells Nation, World Faces Watershed,” *EIR*, Dec. 21, 2012.

2. “Putin Poses Russian National Idea,” *EIR*, Sept. 27, 2013.

3. Lyndon H. LaRouche, Jr., “The Case of Arkadi V. Dvorkovich: Free Russia from the Pirates of the Caribbean,” *EIR*, April 30, 2010.

you frankly that so far, the results are barely perceptible. Let me remind you about a major transaction that took place this year, worth over \$50 billion. The sale of TNK-BP shares occurred outside of Russia's jurisdiction, although we all know that the sellers were Russian nationals, and the buyer was one of Russia's largest companies.

"Last year, according to expert assessments, \$111 billion worth of Russian goods passed through offshores and semi-offshores—that's 20% of our exports. Half of the \$50 billion of Russian investments abroad also went to offshores. These figures represent the withdrawal of capital that should be working in Russia, and direct losses to the nation's budget. Since nothing significant has been achieved in this area this year, I want to make the following suggestions.

"The incomes of companies that are registered in offshore jurisdictions and belong to Russian owners or whose ultimate beneficiaries are Russian nationals must obey Russian tax laws, and tax payments must be made to the Russian budget. We must think through a system for how to collect that money. Such methods exist and there is nothing unusual here. Some countries have already implemented such a system: If you want to use offshores, go ahead, but the money has to come here. . . .

"Moreover, companies registered in a foreign jurisdiction will not be allowed to enjoy government support measures, including Vnesheconombank credits and state guarantees. These companies should also lose the right to fulfill government contracts and contracts for agencies with government participation. In other words, if you want to take advantage of the benefits and support provided by the state and make a profit working in Russia, you must register under the Russian Federation's jurisdiction. . . .

"We need to maintain our fundamental, firm position on ridding our credit and financial system of various types of money-laundering operations. Meanwhile, the interests of honest clients and depositors in problematic banks should be securely protected. Today, the fight against the erosion of the tax base and the use of various offshore schemes is a global trend. These issues are widely discussed at the G8 and G20 summits, and Russia will conduct this policy at both an international and national level."

Implementation of Putin's intention would have far-reaching international implications. From a Russian



Presidential Press & Information Office

In his Address to the Federal Assembly, President Putin took aim at what he called, "the immoral international," that provokes ethnic strife in Russia.

domestic standpoint, the plan was welcomed in a commentary on the Fayl-RF (RF File) site by Yuri Krupnov, leader of Russia's Development Movement. He called it "a pathway toward returning Russia to its citizens." Besides the lunacy of having a huge chunk of the economy not subject to Russia's own tax and other laws, Krupnov pointed out, "Offshore-ization directly promotes corruption. . . . The offshores become a means for foreign interests to control the [Russian] participants in dubious deals, which not only promotes corruption, but represents a threat to the national security." Krupnov suggested that "the realization by businessmen that they should be playing for Russia and fighting for Russia, as the President insists, outweighs all the obvious benefits for state coffers, the investment climate, and so forth. It's an important geoeconomic signal, which should have some follow-up. The President's proposals should be supported, and every effort made in both the executive and legislative branches of government, for them to succeed."

A Different Kind of Asia Pivot

Putin addressed "the international situation from the standpoint of Russia's national interests," Kiselyov summarized in the Dec. 15 Vesti Nedeli program. Two special points of emphasis were the Asia-Pacific Region (APR) and Russia's Far East, and the process of organizing the Eurasian Economic Union and Customs Union.

Having congratulated Russia on achieving positive natural population growth (excess of births over deaths) this year for the first time since 1991, Putin said that Eastern Siberia and the Russian Far East require special attention. He proposed “to establish there a network of crash economic growth zones, with special conditions for organizing non-raw-materials production, including for export.” Substantial money and tax incentives for workers and families who will work there, and for businesses willing to operate in these sparsely populated areas are envisioned.

Linking this perspective to Russia’s trade with partners in the APR, Putin said: “I am certain that Russia’s pivot toward the Pacific Ocean and the dynamic growth of all of our eastern territories will not only open up new economic possibilities for us, new horizons, but will provide additional instruments for conducting an active foreign policy.”

Putin said that preparations for signing the Eurasian Economic Union treaty among Russia, Belarus, and Kazakstan will be completed by May 1, 2014. He reported that working groups are preparing road maps for Kyrgyzstan and Armenia to join the Customs Union of those same three core countries.

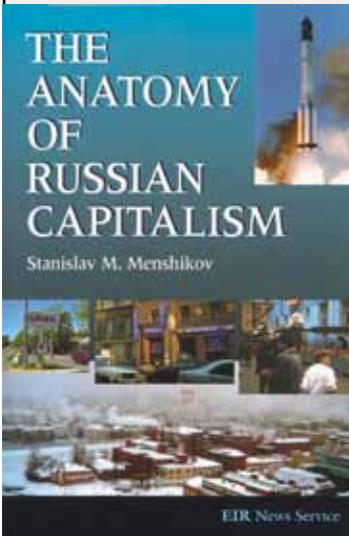
He added that the “real achievements of Eurasian integration” will likely interest additional neighboring countries, including Ukraine. Elaborating on the crisis around Ukraine and its policy, Putin said, “Even before the events we are now witnessing in Kiev—and I do hope that all the political forces in that country will manage to reach agreement and resolve their problems—since May of this year, Ukraine has asked to attend all meetings of our core ‘troika’ with observer status, and has been taking part in the discussions, while repeatedly expressing its interest in joining certain of the Customs Union agreements. We are not forcing anything on anybody. But if our friends want to work together, we are prepared to continue this work at the expert level.”

Military-Strategic Warnings

Putin spoke at length about the diplomatic process, and Russia’s role within it, aimed at resolving the crisis in Syria. He added that the situation around Iran could also be resolved exclusively by peaceful, political means. He echoed the recent observation of Foreign Minister Sergei Lavrov, that resolution of the controversy over Iran’s nuclear program means that there should be no need for a U.S.-NATO ballistic missile defense (BMD) system.

The Russian President returned to this question, in introducing the section of his Message dealing with national policy to build up the defense sector. Once again, he noted that BMD systems “are called defensive, but in reality are an essential component of a strategic offensive capability.” Putin then explicitly discussed the U.S. development of a Conventional Prompt Global Strike (PGS) policy—a would-be “counterforce” capability to take out an opponent’s nuclear deterrent using high-precision conventional weapons.⁴ “Implementation of these plans,” Putin warned, “may have extremely negative consequences for regional and global stability.” He said that the counterforce and BMD programs, combined, would nullify all existing strategic arms agreements, and that Russia “will respond to all of these challenges, both the political and the technological ones.”

4. Versions of this idea have circulated since the early 2000s, when it was promoted by then-Secretary of Defense Donald Rumsfeld. The scheme failed to gain traction against the criticism that once launched, such projectiles would be indistinguishable from a nuclear-armed launch, and therefore other powers would respond as if the weapon were a nuclear warhead. Related notions are discussed in “U.S. Moves toward Nuclear First Strike Capability,” *EIR*, March 15, 2013.



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