

A Child Of Two Augusts: Russian Central Banker Kozlov Assassinated

by Roman Bessonov

In June-July 2006, when the St. Petersburg International Economic Forum and the G-8 summit demonstrated a qualitative increase of Russia's economic and political weight, the defeated critics of the Russian leadership turned towards mysticism. They predicted new problems for the country in August. Why? Because August is known as a "month of surprises." The outstanding examples were the coup attempt of August 1991, resulting in the break-up of the U.S.S.R., and the financial crisis in August 1998, when Russia's default on government bonds shook the world monetary system and caused enormous losses for the state budget and for Russian citizens.

Nonetheless, this August came and went, without unpleasant surprises. By the time of the 15th anniversary of the 1991 disaster, the Russian Finance Ministry had finished repaying the Paris Club state-to-state debt of Russia and the Soviet Union. Earlier in the month, the political brawl in Ukraine ended with a strategic defeat for the designers of "colored revolutions" in the post-Soviet area.

Encouraged, the Russian leadership turned to concentrate on domestic issues. The commitment to economic sovereignty, directly expressed by President Vladimir Putin, as well as a number of new ambitious economic and social initiatives, reflected in four priority national projects, required resolute changes in economic and financial policy.

On Sept. 9, the Bank of Russia (Central Bank) announced new initiatives in banking regulation. Henceforth, auditing companies would share responsibility for financial swindles in banking; they were now obliged to report any financial wrongdoing that they detected to the Central Bank. In addition, the Central Bank proposed to introduce a legal penalty for bankers who were convicted of financial crimes: a lifelong ban from the profession.

Both initiatives were made public at a Russian Banking Association conference in Sochi. The first one was announced by Andrei Kozlov, one of four first deputy chairmen of the Bank of Russia. Since his return to the Central Bank in 2002, Kozlov had served as newsmaker, announcing new initiatives at the Bank's press conferences.

Kozlov's main portfolio was supervision of banking regulations, and their enforcement. In early 2006, the Central Bank initiated a purge of so-called "problematic banks." In a period of six months, more than 70 private financial institutions lost their licenses. At one recent press conference, Kozlov admit-

ted that his office had drawn up a blacklist of unscrupulous banking institutions. This report triggered a panic, undermining several medium-sized banks and accelerating their bankruptcy.

Kozlov's colleagues acknowledge that he had personal enemies. Still, despite the personal challenges that came with his job, the first deputy head of the Bank of Russia often rejected the service of bodyguards.

On Sept. 13, 2006, a group of unidentified persons approached Kozlov near the parking lot of the Spartak Sports Club, where the state banker had taken part in an amateur soccer game. Obviously, they knew his schedule. Moreover, they managed to calculate that Kozlov would leave the sports club after some of his colleagues, but before a group of others, with whom he spent some time in the club's sauna. Perhaps the group of unidentified persons had an agent among either the bankers, or the club's personnel.

According to official investigators, the unidentified persons approached Kozlov's car and started talking. A passerby heard the men shouting, but did not understand any of the conversation, which ended with shooting. The criminals killed the banker and his driver, and escaped through a hole in the Sports Club fence, and then through a park to the next street.

The police found two pistols in the bushes, one of them homemade and the other modified by hand, rather primitive weapons, atypical for hired assassins. Weapons of this type are more convenient for threatening a person by placing the gun at his ear, or for shooting at close range. Perhaps the assassins intended to negotiate with the banker, and to use weapons only if he rejected their proposal, or refused to sign something or to give them something.

The assassins also stole Kozlov's bag. For some reason, the mass media chorused that "there was an attempt to make it look like a robbery." Not a single journalist raised questions about the contents of the bag, or the banker's plans for the evening. Was he on his way to a confidential meeting?

As soon as the banker said "no" to the unidentified persons, they fired at close range, hitting first his neck, then his head. The driver was shot in the back as he tried to flee. He had not taken part in the strange, incomprehensible discussion between the killers and the victim. His death eliminated a witness, and prevented his travel to a place where, perhaps,

somebody else was waiting for the banker.

The Lenta.ru web site headlined, “Investigators seek the assassins in Kozlov’s own circle.”

A Post-Soviet Career

Andrei Andreyevich Kozlov, a graduate of the Moscow Finance Institute, started his career at the U.S.S.R. Central Bank in 1989, at the age of 24. By 1990, he already headed the Department of Stock Operations Methodology. The following year, he was rehired by the transformed Bank of Russia, as director of the Department of Securities. In 1995, when Tatyana Paramonova was acting chairman of the Central Bank, Kozlov was elevated to the post of deputy chairman, a position he retained after Paramonova’s replacement by Sergei Dubinin. Kozlov rose to first deputy chairman, and even held on to that job for six months after the August 1998 financial crisis, when former Central Bank chief Victor Geraschenko returned to the Central Bank under the Yevgeni Primakov government, to stabilize the institution in the aftermath of the default.

Kozlov was known as one of the initiators of the large-scale emission of the short-term state bonds, known as GKO. By April 1998, the GKO pyramid was in trouble. At that time, the weekly *Zavtra* reported from foreign sources, Dubinin and Kozlov made an unpublicized visit to Washington for “consultations on possibilities to prevent an Asia-style of crisis in Russia.”

In July 1998, as the impending crash of the GKO pyramid loomed larger, the International Monetary Fund (IMF) disbursed a \$4.8 credit to Russia. The funds were transferred through Edmond Safra’s Republic National Bank. Later, a special investigatory commission of the State Duma tried and failed to trace the pathway of this transfer, but it did not blame any of the top Central Bank figures. The Ministry of Internal Affairs and the Prosecutor General’s Office, however, charged that several Central Bank officials had siphoned off state budget monies into personal accounts abroad. The Duma commission’s report mentions then-First Deputy Chairman of the Central Bank Sergei Alexashenko in this connection. Andrei Kozlov was mentioned as a witness.

In January 1999, Kozlov’s name surfaced in the scandal more substantially. According to a Prosecutor General’s document, published Jan. 12, 1999 in *Nezavisimaya Gazeta*, “it was discovered that in his function as First Deputy Chairman of the Central Bank, [Kozlov] had several ruble and foreign currency accounts, accumulating money derived from GKO trade. His ruble account at Avtobank alone absorbed 12 deposits, totalling 560 million rubles, and the currency account—\$42,000. . . .”

The scandal around this revelation resulted in Kozlov’s resignation in January 1999. He then put his skills to work in private business, as chairman of the board of Russky Standart Bank, founded by the alcoholic beverages merchant Rustam Tariko. The bank soon became a “problem” institution, but it



Russian Central Banker Andrei Kozlov was assassinated Sept. 9, shortly after the Russian Central Bank announced new initiatives in banking regulation. But there is more to the story.

was not put into receivership. Why not? A former Central Bank economist named Mikhail Smirnov claims that “this bank, which was actually insolvent, enjoyed high-level protection from the World Bank.”

There were other leads, as well, connecting Kozlov with international financial institutions. From Russky Standart, he moved to the airline Aeroflot’s insurance company, which soon went bankrupt. The young banker then found a job with the Washington-based Financial Services Volunteer Corps (FSVC). This agency, founded by former U.S. Secretary of State Cyrus Vance, had provided consulting services to the Russian Central Bank on the “methodology” of issuing state bonds. In 2002, Kozlov was invited back to the Central Bank by its newly appointed chairman, Sergei Ignatyev.

Analysts speculated about the involvement of leading U.S. circles in the infamous “evaporation” of the July 1998 IMF credit to Russia. When the Bank of New York (BONY) scandal, involving Russian criminals and vast-scale money laundering, broke in 1999, the damage to U.S. national interests was played up by GOP campaigners as “the Democrats’ ” fault. Swiss investigator Caspar Ancermet believes that a large part of the loan did end up in BONY.

Kozlov survived the subsequent political changes in Russia. Like another survivor, “young reformer” Anatoli Chubais, Kozlov gradually reprofiled himself as a patriot, rather than a free-trade liberal. Since 2004, the murky fate of the IMF loan was swept under the carpet in both Washington and Moscow, while BONY-linked figures from the world of the shadow economy moved on to other business ventures, such as taking control over the Russian-Ukrainian gas trade.

More Hidden Springs

Izvestia, commenting on the assassination of Kozlov, explained the strange 1999 trajectory of the banker’s career in terms of a “change of opinion” in the Primakov government. In 1998, the paper suggested, the Central Bank leadership was

desperately trying to prevent further damage to the federal budget, and, at the same time, to dampen the panic. In this process, Kozlov publicly announced that individual depositors, in order to protect their money, should pull it out of targeted banks and transfer it to the State Savings Bank (Sberbank). In the event, depositors lost more than half their savings, as the ruble was devalued. Only in January 1999, almost months after the ruble's collapse, did the government "decide" that the proposal had been a mistake.

This concoction was hardly invented for the sole purpose of protecting Kozlov's reputation. *Izvestia* seems to be furthering a cover-up of what went on in the crisis year of 1998. Meanwhile, the taboo on any discussion of the events of that year leaves many other questions open, including very current questions. Why, for example, did the Central Bank decide to demote Tatyana Paramonova, just days before Kozlov's assassination. Relations between Kozlov and his former boss were far from friendly.

On his web site, the embittered former Bank of Russia official Smirnov named partners of Kozlov at the Central Bank and Sberbank, who, according to his version, siphoned portions of Sberbank loans abroad. Smirnov had even filed two lawsuits against Kozlov in this connection, but with no results.

Smirnov points to a special role, played by Kozlov, in rescuing funds from Mikhail Khodorkovsky's Bank Menatep, in the aftermath of the 1998 crisis. Bank Menatep was severely affected, but Smirnov says that Khodorkovsky's money survived by being transferred to DIB Bank (later renamed Trust Bank, since somebody noticed that "DIB" sounds like "Dieb," or "thief" in German) and to Bank Menatep's own St. Petersburg branch, which already had the status of an independent institution. Whistleblower Smirnov even mentions the names of intermediaries, who allegedly delivered Central Bank insider information to Bank Menatep.

Other authors write that Kozlov got his Aeroflot job through the same Yukos/Bank Menatep connections.

Smirnov filed his suits in 2003 at the Basmany Court in Moscow, the same court that handed down harsh sentences for Khodorkovsky and his associates at Yukos Oil. Evidently, the plaintiff hoped that exposing Central Bank and Sberbank corruption would restore justice, and help him to return to his job as Central Bank economist, from which he was fired without explanation.

Smirnov's allegations also refer to the famous financial swindler Artyom Tarasov, who escaped from Russia to Istanbul in 1990 with huge sums of money from the U.S.S.R. state budget. Tarasov moved on to London, then ran successfully for the State Duma, and even tried a run for Governor of St. Petersburg. This reference brings us to the secret of Andrei Kozlov's exceptionally successful career, during the murky period of the dissolution of the Soviet budget and the transformation of relevant institutions. Tarasov's lucky escape from investigation is explained by a number of authors,

as the result of his special services to Russian leader Boris Yeltsin in the fight between the Soviet and Russian governments over financial flows during 1989-91. These half-criminal dealings, with a high degree of international involvement, played an important role in the chain of events, leading to the August 1991 collapse of the Soviet Union.

One should not be surprised that the passerby, who heard Andrei Kozlov talking with his assassins, did not understand anything: the language of financial swindlers is too specific. One should also not be surprised if the assassins turn up dead; they may know too much about the background of the Central Bank's connections with foreign institutions, as well as about the mechanisms of careers in Russian state banking. Some mass media are already preparing public opinion for the assassination of the assassins: "They may be throwaway people, like their throwaway pistols."

Smuggling

Izvestia mentioned one more lead in the Kozlov case. One of its articles refers to the case of Sodbiznesbank and its clone, Credit Trust Bank, owned by a certain Alexander Slesarev. When these two private financial institutions were stripped of their licenses by the Central Bank, the paper says, some of their assets were funnelled to another institution, National Capital Bank. Its owner, Dmitry Plytnik, received physical threats from unidentified persons, and was forced to go into hiding. In February 2006, the bank was declared bankrupt by the Deposit Guarantee Agency, which Kozlov had established.

This agency was described in the Russian media as a "filter" for Russian banks, to sort out which ones would be allowed to manage individual investors' money. The choice of "good" and "bad" banks did not necessarily correspond to criteria of stability; the "white list" included dozens of small and little-known regional institutions, while such large banks as Mezhprombank were left outside without explanation. Some of the unlucky bankers dubbed Kozlov "Mister Filter," and charged that it took payment of a formidable bribe, to be white-listed.

Plytnik's letter, complaining of pressure against him, was written in December 2004, but published only in October 2005. Days later, Slesarev was assassinated on the Kashira Highway near Moscow, along with his family. There were no surviving witnesses. *Izvestia's* author suggested that some persons, who lost money in Slesarev's banks, "tried to get it back, and he pointed at Andrei Kozlov."

In this description of a gangster brawl, Kozlov figures not as a state official, but as a private person, whom other private persons are "pointing at" to get their problem solved. If that were really the case, then the portrait of Kozlov as an exceptionally decent official, drawn by the same *Izvestia* in other articles, has nothing to do with truth.

What does appear to be the case, is that clan warfare is going on among groups of financiers and bankers, allied with

domestic and foreign partners in large-scale international shadow-economy operations. These largely involve smuggling.

The daily *Kommersant* noted that the central focus of Kozlov's recent efforts was the use of banks for illegal ("gray") customs operations. This kind of crime is still flourishing not only because of gaps in the legislation, but, much more, because of gaps in Russia's borders—one of the most disturbing legacies of the disintegration of the U.S.S.R. in August 1991.

During the past 15 years, the cooperation of smugglers with border officials has given birth to a whole "state within a state" of shadowy clans, each with its own lobby at the level of the federal executive and legislative authorities. Illegal operations dominate the market for a number of products, for which legal imports are saddled with disproportionately high customs duties, plus the unofficial bonus that importers must pay to the customs clans.

Official Reactions

The first official to react to the news of Kozlov's murder was Chubais, though his present position as head of the national electricity company has little to do with banking. In a chorus with him, the foreign press described Kozlov as nothing less than a symbol of Russian banking reform.

President Putin was silent almost two days after the killing. On Sept. 15, he invited Central Bank Chairman Ignatyev for a talk that lasted an hour and 20 minutes. The next person to visit the President was General Alexander Bortnikov, head of the Federal Security Service's Economic Security Directorate, which is responsible for anti-smuggling enforcement. Next came Minister of Internal Affairs Rashid Nurgaliyev, and then Ignatyev again.

Only after these consultations, did Putin speak out, calling the assassination "a sign of the exacerbation of economic crime." Recalling that Kozlov dealt with "problem banks," the President elaborated on the use of the banking system for criminal purposes: capital flight; illegal non-cash/cash deals, bribery, terrorism, and drug trafficking. Finally, he insisted on changes in legislation, concerning the "treatment of suspicious clients" by banking institutions.

The President was reluctant to mention names. Moreover, Kozlov's activity was described as "dealing with," without positive or negative emphasis. Political child of two disastrous Augusts, partner of unscrupulous U.S. consultants, lucky playboy (as *Profil* magazine wrote in July 2004), Andrei Kozlov could not be painted in just one color. Like the whole of his generation, he was "controversial," and was continuing his career with an old, murky shadow behind him.

At Kozlov's funeral, his colleagues highly appreciated his role in "establishing the Russian securities market." That market is far from transparent. The attempts of Ignatyev and his subordinates to clean it up were certainly initiated by the Kremlin. Still, there were other factors, such as a continuing

negative rating of Russia by the Fitch agency, which motivated one of the two bold initiatives, now posthumously associated with the name of Kozlov.

The Kremlin's intention to clean up the national banking system is certainly sincere, also for political reasons. "In my 20-page analytical paper, addressed to Ignatyev, I insisted on the need for legislative amendments on regulation of the system of plastic cards. Because of primitive regulations, including a lot of contradictions, this system is dominated by shadow-economy turnover. There is hard evidence that such a situation may result in large-scale bribery of state officials in the period of the election campaign," writes Smirnov, referring to the very banks where some of the top figures of Russia's permanent financial *nomenklatura* have found temporary employment.

The Achilles' heel of Putin's leadership is insufficient competence in finances, especially in their international aspect. The very fact of Kozlov's return to the Central Bank in 2002 indicates the strategic significance of this problem. Taking charge of the central financial institution after the retirement of Gerashchenko, Ignatyev was sorely in need of competent cadre. The easiest possible way to address the problem was to invite a person with a good reputation in the West and a doubtful reputation at home, who would be forced to behave decently under pressure from both sides.

At the present stage of Russia's development, such an approach to personnel policy should be regarded as obsolete, as should obsessive curtsying to the liberal establishment, involved in international shadowy deals.

On the other side, cavalry charges like the proposed lifetime banning of suspicious bankers from the profession are unlikely to provide a positive effect, if implemented immediately. The law enforcement bodies also would need to be purged, before becoming competent to judge who is suspicious, and who is not. In early September, as a matter of fact, a dozen Russian police and security generals were fired. In most of the cases, the central suspicion is smuggling. A comprehensive investigation is likely to reveal alliances between administrative, private, and public policy figures. The purpose of such an investigation would not be to launch a purge as such. A thorough screening effort, along with legislative amendments, would have to focus on the very roots of criminal rivalries, as well as the basis for their continuation, in an ineffective trade policy. The elimination of this basis would create the necessary conditions for acceptable personnel selection.

The banking system might be healed, only after clan warfare throughout the establishment were effectively overcome; after the Russians finally abandoned all servility before Western-educated financial specialists; and, certainly, after the Russian banking system gained real independence from clans operating through the World Bank, the IMF, and other semi-shadowy instruments of the greatest financial crime of today, namely, globalization.