THE COLOUR OF RUSSIAN MONEY PART 15: THE FOURTH ESTATE PART 3; EDWARD LUCAS: THE ECONOMICS OF TRUTH?

Stephen Komarnyckyj January 9, 2019



After the publication of this piece I was approached by Edward Lucas who notes that he was not approached for comment prior to its publication

In the latter part of the low dishonest decade that was the noughties, but before the crash of 2008, two men met for lunch in London. One of them, John Christmas, was the ex-head of the Latvian Parex Bank's international Group. The other, Edward Lucas, was a prominent journalist at the Economist who was known for his steadfast opposition to the Putin regime. Christmas had fled Latvia in 2005 after he became aware that the bank was linked to the Russian mafia and Russian security services. Latvia was, in his words, a "fake NATO ally." He had told the Latvian government that there was a "pyramid fraud" at the bank and they were "fighting me to protect the crooks." Lucas initially seemed sympathetic

according to Christmas who now remembers that "he told me that he knew that Parex was a KGB money launderer which was protected by the corrupt Latvian government. He also went into detail about how they might kill me and what security precautions I should take."

In 2008 the crash triggered by industrial scale fraud on the American mortgage market hit Latvian banks and was a catalyst for the collapse of Parex bank. However, whereas American banking faltered due to unrealistic loans to low income home buyers, Parex was seemingly exposed due to the actions of its owners. It would subsequently emerge that the two men with a majority stake in the bank, Valery Kargins and Viktors Krasovickis, had been given loans on terms that were extraordinarily generous. Grigory Rabinovics, a key figure in the Tambov mafia who was also an associate of Torshin, the handler of informal Russian asset Maria Butina, also had a stake in Parex. He too appears to have benefited from the largesse of the bank and provided a conduit for bleeding its assets as it collapsed. The bank's loan policy appeared to be based on lending funds to Tambov mafia figures such as Khudainatov and Rabinovics. These loans were occasionally issued to businesses which went conveniently bankrupt …

The Latvian government's pursuit of the men behind the Parex collapse was little more than a token affair. Kargins and Krasovickis were only compelled to leave the bank at the insistence of the IMF and the majority of the funds taken from the bank do not appear to have been recuperated.

The corruption that infested Parex reached to the heart of the administration. Indeed Arnis Lagzdins, the bank's compliance officer, subsequently occupied the same role at Lithuania's Ukio bank which was used as a conduit by to Putin's bagman Roldugin and, similarly, collapsed in 2013 having been apparently looted by its owner. Amazingly Lagzdins would subsequently be appointed by the Latvian government's financial regulator, the FCMC and tasked with assuring the US of the credibility of the country's banking sector.

Ilmars Rimsevics the country's top banking official at the time of Parex's collapse was arrested in 2018 in connection with charges of bribery and links to Russian money laundering schemes. He was a close associate of Valdis Dombrovskis, Latvian Prime Minister from 2009 to 2014 who, along with him, ultimately managed the aftermath of Parex's collapse. A key element in their programme was a curious privatisation deal. They persuaded the EBRD to purchase shares in Parex bank which the Latvian privatisation agency had to buy back "under certain conditions." In addition the Latvian government would pay the EBRD, via a rather curious guarantee for its "investment" in the bank. This arguably allowed the aftermath of the looting of the bank to be managed without securing the return of much of the money pillaged from the bank. The transaction, Christmas argues, was 'deceptive' since it covered up a multi-billion-euro loss over a five year period. Ukio bank was also bailed out by the EBRD in a transaction which bore similarities to the curious chicanery of their Parex manoeuvre. A 2018 report by the EU's statistical agency Eurostat indicates that the privatisation of Citadele, the successor to Parex, was undertaken in a similar manner. Latvian officials persuaded the EBRD to invest €35m in Citadele shares by guaranteeing to buy them back for €88m. This reversal was effectively secret and was not covered in the bank's annual reports and the value of the guarantee concealed from the Latvian media.

One might have expected Lucas to tackle the EBRD's role in the aftermath of the Parex collapse with the controlled forensic rage which characterises much of his writing on Putin. Indeed in his 2008 book The New Cold War he wrote that 'at the EBRD, Russia is blocking projects in pro-Western countries, while insisting on extensive support for Russian companies and infrastructure projects, and the lending of respectability to Kremlin-backed banks that want to approach international capital markets.' Christmas similarly argues that the EBRD was supporting Parex and Ukio thereby propping up Russian mafia

linked structures in 2009 to 2013. Many Parex staff and clients migrated to both ABLV and Citadele which was also propped up by the EBRD.

Yet Lucas's actions in the period following the collapse of Parex were a strange contrast to his words in that long lunchtime conversation. On 2 November 2010 he published an article in The Economist entitled "And for my next trick" which portrayed Dombrovskis as a magician... "Valdis Dombrovskis" he wrote "is an unassuming man. But if ... the newly reelected Latvian prime minister reveals that his private hobbies are snakecharming or firewalking, few European counterparts would find it surprising. They find cutting slivers of state spending hard, whereas Mr Dombrovskis has pushed through a fiscal adjustment of 8% in 2009 and 4% in 2010."

It is worth noting in passing that during this period the Latvian government was injecting cash regularly into the crippled remnants of Parex bank, which would later be named "Reverta. The austerity programme which Lucas praises might not have been required if Parex had not collapsed. And the bank might not have collapsed if Rimsevics, glowingly praised by Dombrovskis, had overseen the country's banking sector with due diligence.

Lucas also rushed to the defence of Rimsevics when the Latvian banker was accused of extorting money from Norvik bank throwing doubt on the accusations in a twitter post.



The proceedings against Rimsevics are still underway but the accusations appear to be credible and seem to be believed by several Latvian banks including those who allege they were targeted by him for bribes, Latvia's anticorruption bureau (KNAB) and the US government. If he were the model of probity Lucas suggests how did he manage to preside over a banking system that serviced the Russian mafia and intelligence services for decades?

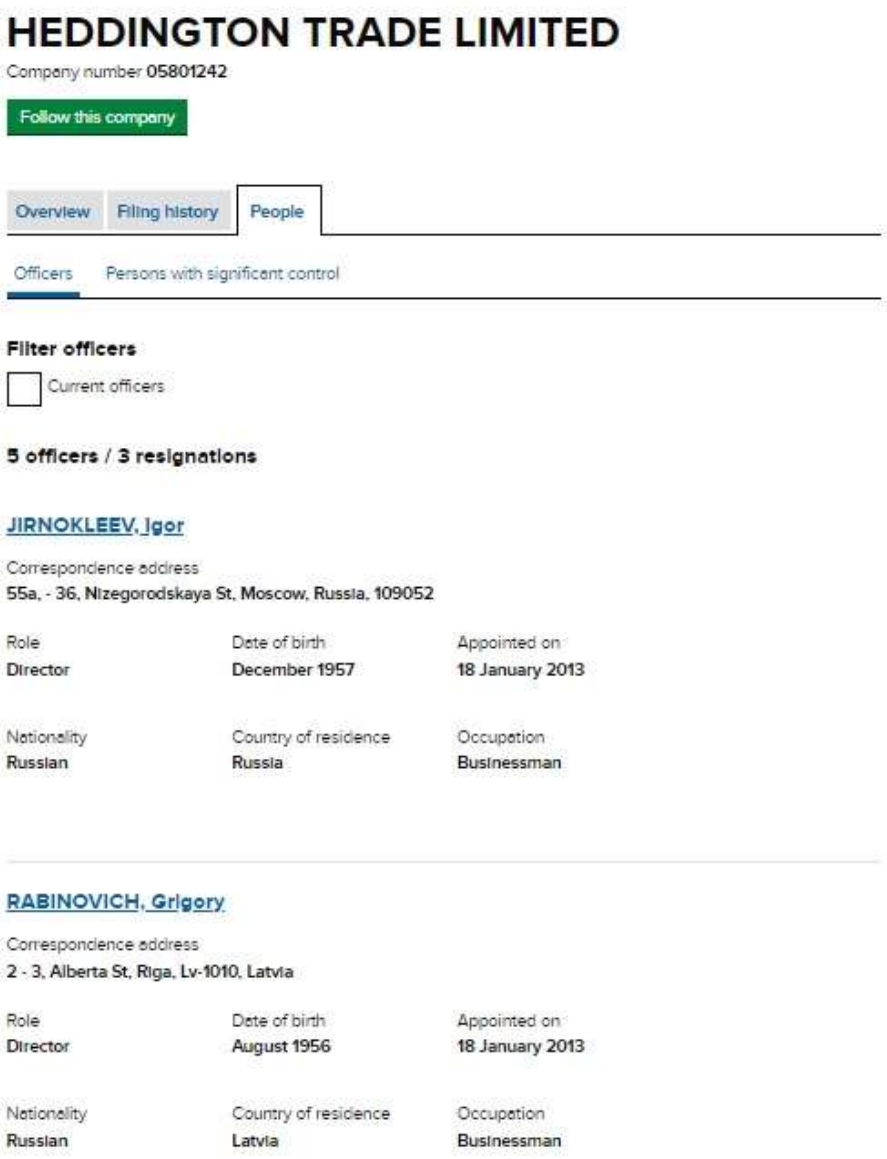
Lucas also allegedly began criticising Christmas and querying the details of his story. In July 2016 the ex-head of Parex's international group received an e mail from a woman who had been planning to nominate him for the Transparency International awards. She had apparently contacted Edward Lucas

about Christmas “but he said that he and all the other major newspapers checked into your story and it didn’t add up.”

When Christmas sent an understandably enraged e mail to Lucas asking what part of his story was deemed to be false he received a possibly sneering reply copied into several other journalists (including Luke Harding and Oliver Bullough) in which Lucas asked for links to details of the Parex story which, as Christmas noted in his e mail, had appeared in the Italian and Dutch media. The intention seemed to be to suggest that articles such as this one in the Dutch media did not exist. He did not explain what elements of the story he considered bogus.

It seems absurd for Lucas to reject the assertion that Latvia paid the EBRD to buy Parex stock given that the Council of Europe investigator Pieter Omtzigt confirmed this in 2014. While Omtzigt has been criticised for his role in giving credence to questionable theories on the downing of flight MH17 in 2014 he has been diligent in tackling Russian corruption and was praised by Bill Browder for his role in lobbying for a Magnitsky act for the EU.

Serious questions about Parex, which Lucas and the journalists he copied into his e mail could explore, remain unanswered. Why was the compliance officer at two looted banks, Arnis Lagzdins, employed as the Latvian government’s front man in the United States? Does his son have links to offshore Russian entities while working in a highly sensitive role in the Latvian government? Why would three different banks allege that Rimsevics asked them for bribes? Why was the vast majority of the money taken from Parex seemingly never recovered? Why were evidently questionable mechanisms such as alleged Parex loans to a UK shell company with not one but two Russian mobsters for directors not investigated? Was any of the money looted from Parex laundered via the Moskva department store and Spain and then used as part of the financing for Maria Butina’s subversion in the United States? Why was the EBRD so willing to prop up a looted bank without ensuring that the perpetrators were brought to justice? How can the Latvian government paying the EBRD an estimated €95,000,000 in 2014 as a guarantee for a similarly sized investment by the EBRD in Parex in 2009 be justified? Why were key personnel from Parex allowed to migrate to ABLV with the result ultimately that that bank in turn became a money laundering machine and collapsed in 2018? And what was the fire walking snake charming economic magician Dombrovskis doing during all this?



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Role	Date of birth	Appointed on
Director	December 1957	18 January 2013

Nationality	Country of residence	Occupation
Russian	Russia	Businessman

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Role	Date of birth	Appointed on
Director	August 1956	18 January 2013

Nationality	Country of residence	Occupation
Russian	Latvia	Businessman

Nothing to see here! Move along!

There is, of course without being specific, a basic answer to all these questions. The war that Russia is waging on Europe is primarily national in character. Putin hopes to re-establish Russian hegemony over Ukraine. Indeed for him, and for many Russians, Ukrainian identity is a blasphemy, an artificial construct separating one Russian people. It is, however, simultaneously a societal war, between two social models which we might characterise as oligarchic populism and popular sovereignty. This war is being waged within, as it is being waged between, Russia and Ukraine and the west. Lucas may make some similar points. However, actions speak louder than words, and in the case of Latvia we may venture to suggest that the uncritical attitude on the part of Lucas towards its politicians will not have been viewed unkindly in certain quarters. Indeed Lucas, like Anders Aslund who we have featured previously, still has close ties to Latvia's political establishment and both men featured alongside Dombrovskis at the 2017 Riga Conference.

Latvia's chief enemy was, and remains, the susceptibility of its officials to corruption and the consequent threat to the sovereignty of the Latvian people. Similarly the international institutions which are meant to support democracy at a higher level are vulnerable to the transnational personal and oligarchic ties with which Putin and Russia's elite hope to subvert the sovereignty of individual countries and international order. Rabinovics's proximity to both the collapse of Parex and the Butina episode is no accident. The inability of Latvia to tackle the scope of the corruption connected to the

bank and the blind eye turned by the EBRD are also measures of Putin's success in his societal war. Dombrovskis may be no magician. But the mafia who looted billions from Latvia's economy while the EBRD helped prop up the looted carcass of Parex have performed a vanishing act beyond the scope of any stage illusionist.

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