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A tale of *gazoviki*, money and greed

Dubious methods and shady partners

The managers of the Gazprom corporation are casting a network of front companies over Europe – but in whose interests?

This is the story of an invasion. A massive campaign, planned well in advance. The General Staff is located far away in the east, in Moscow, the capital of Russia. The target area is Germany – and the rest of Western Europe.

The invasion is about gas. But, even more, it is about large amounts of money. Large amounts of money for very few people. People who want above all to remain anonymous.

This is the story of Gazprom, the Russian gas giant. With a market value of 180 billion euros – more than double that of Siemens – Gazprom is the biggest company in Europe and, at the same time, one of the least transparent. Indeed, Gazprom seems to have elevated concealment to the rank of a business principle.

For former German Chancellor Gerhard Schröder (SPD) it was a “point of honor” to accept 250,000 euros a year for sitting on the shareholders’ committee of Gazprom’s subsidiary Nord Stream. According to Schröder it was in the interests “of our country and of Europe.”

But the story of this invasion is teeming with ex-Stasi officers and shady figures. It is a story of letterbox companies that do not even have a letterbox, of companies nestled within companies. The overriding impression? That they are concealing flows of funds.

In Russia, they call Gazprom’s managers *gazoviki*. Many of them come from the KGB, or from other friends of the Russian President Vladimir Putin. In their own country, they sustain losses due to state-controlled prices for gas. So the *gazoviki* have to turn to the European end consumer.

Those in the know call this “moving downstream.” According to energy expert Andreas Heinrich, “you can make bigger profits downstream.”

The invaders have already made excellent progress.

Gazprom Gas has a market share of more than 40 percent, which could rise to 60 percent in the coming years. Other countries – such as Finland – are already 100-percent dependent on gas supplies by Gazprom.

The *gazoviki* have established their first bridgehead on Berlin's Markgrafenstrasse.

Here resides Gazprom's German subsidiary Gazprom Germania. In Germany, Eon and BASF are Gazprom's two most important partners. Together with Gazprom they are constructing a pipeline through the Baltic Sea at a cost of six billion euros, with planned completion in 2010.

Under former German Democratic Republic gas functionary Hans-Joachim Gornig, Gazprom Germania has built up for its Moscow bosses a complex network of shareholdings in companies that stretch right across Europe. Gazprom Germania also invests enormous sums in public relations – up to 125 million euros in the case of the German Bundesliga team Schalke 04. And when rumors appear about share acquisitions at RWE or Ruhrgas, the alarm bells start ringing in Germany.

And with good reason. "It is very difficult to find a company that is not on our watch list," says Gazprom Vice President Alexander Medvedyev.

Some of Gazprom's shareholdings have very little to do with their core business. One example is the mini-subsidiary ZMB Mobil, located in the village of Möthlow in Brandenburg. ZMB Mobil is an automobile repair shop employing seven people. It also converts cars from gasoline to gas. But why is Gazprom investing six-digit figures in a village with a population of just 194, among the free-ranging chickens and decaying LPG storage barns?

The visible part of the Gazprom invasion is puzzling at times. Even more so the less visible part. Take number 199, Archbishop Makarios III Avenue, Limassol, Cyprus, for example.

Although there is no brass plate or letterbox to show it, this is the location of a central linchpin in the mysterious network of Gazprom companies. The inconspicuous three-storey building with its tiled roof is home to Centrex Group Holding. This company owns 100 percent of the Centrex Group established in Vienna in 2003, which since 2006 has been supplying Austrian customers with Russian natural gas.

In 2007, Centrex expects gas sales worth 265 million euros.

In August 2005, a manager from Centrex told antitrust experts from the EU Commission that the company had "close personal relationships with the managers of Gazprom." Indeed, Centrex stands at the forefront of Gazprom's advance across Western Europe – although neither company likes to admit to their liaison in public.

Between Gazprom's head office and Centrex's operational business in Vienna, the Russian managers have set up numerous further companies – via Limassol, Liechtenstein, Nicosia and Amsterdam. Only right at the end of the trail do we come to Moscow (see illustration on page 183).

But why? The money the *gazoviki* save on taxes in Cyprus and Liechtenstein is lost again through the multi-layered structure. "It's frittering money away on pointless costs," according to business crime expert Helmut Görling.

"When a company's structure becomes overly complicated, there has to be a reason.

If you can't see any necessity for it, it starts to look suspicious." The company IDF in Liechtenstein was set up just 16 days before it bought Centrex, for example – under remarkable circumstances. The founder of IDF was initially the Zurich-based Multina AG, a company fully owned by a Swiss lawyer named Hans Baumgartner.

After the license was granted, a Cypriot company called Siritia Ventures Limited acquired all the shares.

Siritia has an address in Nicosia in the headquarters of a legal firm, but not much else. Its official parent company Rubin cannot be tracked down at the address it provides in Moscow. In 2005, Gazprombank was still listing it officially as a subsidiary. When *stern* inquired at the bank now, it stated that it did not know of a company of that name. So it remains something of a mystery how Gazprom controls its subsidiaries in Cyprus and Vienna.

Such convoluted constructions make it almost impossible to keep track of the flow of money. They allow companies to hide money – for example from Gazprom's Western partners, who have been complaining for years about the company's intransparent business policy. Eon also holds 6.4 percent of Gazprom's shares. "If I were a shareholder, I would ask what is being spent on all these layers before the profit reaches the top," says business crime expert Görling. "The head office has the right to intervene in any of the layers – it can send in a consultant whenever it likes." And considerable sums do seem to trickle away through the Centrex network – for instance millions of euros spent on "consulting fees".

Such was the case in May 2005, for a "consultancy agreement" with an ex-employee of the large British corporation Centrica, that Gazprom shortly afterwards expressed an interest in acquiring. Centrex states that all contracts with service companies have been documented "in full" and "verified."

Yet Gazprom's shareholders received practically no information. In 2006, Centrex Vienna paid no dividends on its profits of 47 million euro. The parent company of Centrex, IDF, also paid no dividends in 2004 or 2005 – and in 2006 paid a measly 100,000 Swiss francs.

At the same time, in the secretive Principality of Liechtenstein, some people are doing the deal of their life. IDF has set up a fund for shareholdings in Centrex. The value of the shares – minimum investment one million dollars – has shot up since 2004. Anyone investing one million dollars in April 2004 would now be looking at more than 20 million dollars. Who are the owners of the shares in the IDF fund? The fund claims to have “no information.”

What is known, is who the investors in IDF have to thank for their good luck. Gazprom Vice President Medvedyev, for example, who sits alongside Gerhard Schröder on the shareholders’ committee of Gazprom’s subsidiary Nord Stream. In September 2006, Medvedyev secured a twenty-year contract for Centrex to supply gas to Austria.

So why does Gazprom give its profits to unknown investors? The company refers obliquely to “business considerations.”

Up until the beginning of this year, Centrex’s ultimate parent company, Nicosia-based Siritia, owned a further subsidiary company via the Vienna-based company Arosgas: Rosukrenergo AG. Several hundred million euros of profit flowed from this company each year via the letterbox company Siritia, which for the last two years has failed to file audited financial statements. The Zurich lawyer Hans Baumgartner, whose name was associated with IDF, also sits on the board of Rosukrenergo. Once again, it is unclear why Gazprom held the shares for a long time via companies in Vienna and Nicosia, rather than holding them directly – the Moscow head office did not control Rosukrenergo directly until this year. Here, too, Gazprom with no apparent necessity shared the profits – 626 million euros in 2006 – with a partner: the Ukrainian businessman Dmitriy Firtash. The FBI suspected a link to organized crime, perhaps in the person of alleged mafia boss Semion Mogilevich.

Firtash says that he knows Mogilevich – but the relationship is only a nodding acquaintance.

Also at Centrex, the invaders were helped by a partner whose reputation is not entirely above suspicion: the Viennese entrepreneur Robert Nowikovsky. His “RN Privatstiftung” held one fifth of the shares in Centrex up until March 2006. The 51-year old was also involved when the IDF fund was set up in Vaduz in 2004. State prosecutors in Israel and Vienna are currently carrying out investigations into an alleged illegal payment of 4.5 million dollars by a company associated with Nowikovsky to the sons of the then Israeli Premier Ariel Sharon in 2002 – a payment allegedly made together with another Viennese businessman, the secretive billionaire Martin Schlaff.

According to Centrex, neither Schlaff nor Nowikovsky today holds shares in the group. Yet Schlaff’s close confidant Michael Hason, who holds functions in many of the businessman’s companies, still holds a number of important positions in the Centrex group.

Schlaff's empire also includes a company in Cyprus. This has the same headquarters as Centrex Holding, and shares some directors with Gazprom's Cyprus subsidiaries.

Centrex, Schlaff and Nowikovskiy even share the same press officer in Vienna.

Back before German reunification, Schlaff was supplying the German Democratic Republic with embargoed goods and earning good money from it. In May 1998, the SED board of inquiry of the German Bundestag ruled that in spring 1990 the Schlaff group had "financially supported the creation of new companies by former Stasi employees." Up until 1989, the Stasi agents supported by Schlaff had been spying on the West from their base in Dresden.

And it is in Dresden that the last piece of the puzzle falls into place. At that time, Dresden was also home to a young, ambitious KGB lieutenant colonel working in foreign intelligence.

His name? Vladimir Putin.

No surprise, then, that Gazprom today comes across as something of a club for former members of the East European security services. Former Stasi man Matthias Warnig carried out – to use his own words – "industrial espionage." He was also active in Dresden in 1989. Today he is head of Gazprom's subsidiary Nord Stream.

Gazprom Germania employs two other former Stasi people in leading positions. And the Financial Times counted no fewer than three people with a KGB background in key jobs on Gazprom's current board in Moscow.

Given Russia's increasingly aggressive foreign policy, that in itself should give cause for concern. After all, Gazprom turned the gas supply to Ukraine off in the winter of 2006 when the country refused to pay its increased price per cubic meter.

Even more alarming is the fact that the *gazoviki*, in their drive to expand and their efforts to conceal, are neglecting their own business. It may sound absurd, but Gazprom could soon run out of gas. According to a study carried out by the British Defence Academy, the company may have difficulty meeting its commitments to supply Western Europe with gas. What Gazprom really needs, according to Eon boss Wulf Bernotat, is "major investment in its plants and production facilities." Its existing fields are already past their best.

New fields are located between icebergs in the Arctic Ocean and will cost in excess of 70 billion dollars to mine. Despite its large revenues, Gazprom's coffers are empty.

Recently, the company reduced its investment budget for gas fields and pipelines by 700 million euros. The reason? The company had overstretched itself in acquiring other firms. British energy expert Alan Riley has identified a "dramatic gap in gas supplies." Naturally enough, Gazprom strongly denies this, claiming that there is enough gas for everyone in the future.

In fact, there may be a very simple solution to the Gazprom puzzle. The secret motto of the invasion of the *gazoviki* seems to be “each man for himself” – before the gas crisis brings down the Russian economy, and the ruble with it. Publicly, Gazprom’s Germany chief Gornig expresses other concerns, such as that the EU wants to disappropriate his company. But one gets the impression that, in reality, he and his bosses are afraid of an imminent collapse in Russia. As if the invasion was a sort of preventative capital flight.

Or it may be, as British energy expert Alan Riley speculates, a precautionary measure to “provide leading Gazprom people with secure piggybanks when the regime changes in 2008” and Putin’s influence wanes.

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Illustration:

The *matryoshka* principle

How Gazprom nests its shareholding within the Vienna-based gas trading company Centrex, which aims to roll up the European market for the Russian energy concern

(1) Gazprom, Moscow, Russia. Joint-stock company, market value approximately 180 billion euros. 50.002 percent owned by the Russian state. Eon Ruhrgas holds 6.4 percent.

(2) Gazprombank, Moscow, Russia. Total assets 33.88 billion euros. 87.49 percent owned by Gazprom (2005)

(3) Gazinvest Finance B.V., Amsterdam, Netherlands. GmbH (limited liability corporation), nominal capital 10 million euros. Founded by Gazprombank in 2001. Managed by a trust subsidiary of Deutsche Bank AG.

(4) Brochan B.V., Amsterdam Netherlands. GmbH, nominal capital 100,000 euros. Managed by a trust subsidiary of Deutsche Bank. Since November 2003, 100-percent owned by Gazinvest Finance B.V.

(5) Gasexco Gas Exploration Company Limited, Nicosia, Cyprus. GmbH, nominal capital 436,000 euros. Registered office in Nicosia does not have a company nameplate or its own letterbox. Since 2004, 100-percent owned by Brochan B.V.

(6) Siritia Ventures Limited, Nicosia, Cyprus. GmbH, nominal capital 1,700 euros. Registered office does not have a nameplate or its own letterbox. Annual financial reports for 2005 and 2006 cannot be traced in the Commercial Register (as at August 2007) – in contravention of local regulations. Acquired from Gazprombank via

Gasexco in 2004 for 2,000 dollars. Since September 2005, no longer owned by Gasexco, but by the Moscow Gazprom subsidiary Rubin*.

(7) IDF Anglagegesellschaft AGmVK, Vaduz, Liechtenstein. Investment company, capital stock (2006) 306,000 euros. Licensed in March 2004 by the government of Liechtenstein after the “good reputation” of the shareholders had been checked. At that time, the owner was given as Multina AG. In December 2004, Siritia Ventures Limited acquired all the shares in the company. Since the end of 2005, Russische Kommerzial Bank (Russian Commercial Bank) in Zurich has held an 80 percent share. According to its own statements, this share is to be acquired by Gazprombank in the near future.

(8) Centrex Group Holding Limited, Limassol, Cyprus. GmbH, nominal capital 200,000 euros. Registered office in Limassol does not have a nameplate or its own letterbox. Since April 21, 2004, 100-percent controlled by IDF, which itself was founded April 5, 2004.

(9) Centrex Europe Energy & Gas AG, Vienna, Austria. Joint-stock company, initial capital 2 million euros, declared profit in 2006: 47 million euros. Up until March 2006, 80-percent controlled by Centrex Group Holding, Cyprus; since then, 100-percent controlled. Subsidiaries in Austria, Switzerland, Italy, Hungary, Russia and the British Virgin Islands.

*Rubin, Moscow, Russia. GmbH. Since September 16, 2005 controlled by Siritia Ventures Ltd in Nicosia. Acquired in 2005 by Gazprombank for 1,000 US dollars.

Illustration:

Goal: Europe. Gazprom is already the most important supplier of gas to EU states. It aims to extend its influence further

Caption under picture:

The stuff that profits are made of. Gas fields in Novy Urengoy in Siberia, near the Arctic Circle, one of Gazprom’s sources of gas

Old friends, big business

Former German Chancellor Gerhard Schröder and Russian President Vladimir Putin at the Hanover Trade Fair

The money trail leads to Cyprus

Letterbox companies with no letterboxes: Number 199, Archbishop Makarios III Avenue, Limassol is the home of Centrex Group Holding, a central linchpin in the inscrutable network of the Gazprom empire