

Foreign Affairs Committee

Oral evidence: Russian corruption and the UK, HC 932

Tuesday 17 April 2018

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[Watch the meeting](#)

Members present: Tom Tugendhat (Chair); Chris Bryant; Mike Gapes; Stephen Gethins; Priti Patel; Mr Bob Seely; Royston Smith.

Questions 133-211

Witnesses

I: Emile Simpson, Research Fellow, Harvard University, and Dr Mark Galeotti, Senior Research Fellow, Institute of International Relations, and author.

II: Garry Kasparov, Author and political activist (via video link).

Written evidence from witnesses:

- [Emile Simpson](#)
- [Garry Kasparov](#)

Examination of witnesses

Witnesses: Emile Simpson and Dr Mark Galeotti.

Chair: Welcome to this afternoon's session of our inquiry into Russian corruption and the United Kingdom. Welcome Dr Mark Galeotti and Emile Simpson—thank you very much indeed for coming.

Q133 **Chris Bryant:** We have heard from previous witnesses that no Russian oligarch holds any of their money other than at President Putin's pleasure. Is that your estimate, and your judgment?

Dr Galeotti: Yes, very much so. I think the taking down of Mikhail Khodorkovsky early in Putin's reign was a very clear signal at that point that you have to play ball, and you have the money essentially in trust for the state until the state decides otherwise, or some sharper-toothed predator within that political ecosystem comes after you.

Q134 **Chris Bryant:** Do you both agree?

Emile Simpson: Yes, I agree with that.

Q135 **Chris Bryant:** Does that mean that there are any Russian oligarchs in the UK who are not signed-up Putinis?

Dr Galeotti: It depends. A fair number of them have sought to move assets out, precisely in part as a sort of insurance policy. If all of a sudden they were deprived of their Russian assets, it is always nice to have a few billion to rub together. On the other hand, one also has to look at the fact that this is a system which is increasingly demonstrating itself to be brutal and ruthless. Therefore it is not simply a question of the financial assets. One also has to look at their family and so forth—what leverage points does the state have?

I would say that we are essentially talking about a spectrum. There are many who are, frankly, entirely dependent upon the state. They tend not to be the ones who live abroad. They are the Sechins of this world. Then there are those—particularly those who live abroad, which includes, for example, Vekselberg, who was one of the people sanctioned recently by the United States—who actually have already moved a certain amount of their assets abroad, and who leverage that.

No one wants, if they can avoid it, to be entirely dependent on one—particularly one fairly capricious—regime. They do not challenge the state if they can avoid it, but on the other hand they seek to maintain positions so that if need be, if worse comes to worst, they can basically cut ties with Russia and reinvent themselves as westerners. If we look at someone such as Roman Abramovich, I think he is a fairly classic case of someone who has not abandoned his positions in Russia, but he clearly has moved a lot into the west, which means that he has a different range of options.

Q136 **Chris Bryant:** What happens if he decides to go a step further and



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criticise the regime?

Dr Galeotti: In a way, that depends on other people who make the decisions. What we have seen is that this is not North Korea. Russia is a regime that permits a certain amount of public dissent. However, we do know that President Putin has, in this respect, a gang mentality. What he regards as far worse than dissidents are traitors. It is particularly that sense of someone who has benefited so much from the system turning against it. Then I think, from Putin's point of view, they become much more serious a challenge.

Quite how he would respond would involve crawling into the deep, dark spaces of his mind, which I am delighted to say that I cannot fully do. It could be anything from—I am sure one would expect this at the very least—a whole variety of legal challenges on his assets. Interpol red notices would be issued for suddenly discovered tax frauds and whatever else. Whether it would go to more serious things, I cannot really speculate.

Q137 **Chris Bryant:** Go on—speculate.

Dr Galeotti: It is clear that this is a Kremlin that accepts the full spectrum of options at its disposal, from nuisance legal cases and lots of black propaganda, all the way through to killing people. It is simply a question of the particular cost-benefit analysis and how much this particular person got under Putin's skin. That would, I think, decide where on that spectrum they would go.

Q138 **Mike Gapes:** What about the wealth that the oligarchs have? How is that used to pursue and advance Putin's foreign policy goals?

Dr Galeotti: The way I see how the Putin regime has evolved is that it is what I call a mobilisation state. Again, it is not totalitarianism—there are private business people and there is private money, and so forth. However, this is a state that regards itself as having the right, whenever it feels it is necessary for its own interests, to require people to do things.

The honest answer is much of the time, the oligarchs' money is just being used the way rich people's money always is, whether it is in terms of reinvestment or buying agreeable properties. However, it is also clear that there are situations in which, actually, the state says "We want something from you." There was a particularly infamous case when Putin wanted a new palace and he required the oligarchs to chip into a fund for Russian healthcare, a large portion of which was diverted.

We see that also in foreign relations. There is clearly, from time to time, an encouragement to, for example, invest in particular areas. We find it especially, not in a place like the UK, but in rather more impoverished circumstances. If you look, for example, at the western Balkans, it is clear there is a certain nudging towards "We would like you to buy lots of real estate in Serbia or invest in the pharmaceuticals industry in Bosnia" because this gives useful leverage. Going back to this point about the

oligarchs having their money because the state allows them, there is clearly also a willingness to put requirements on them.

Q139 **Mike Gapes:** This is a form of state capitalism then? In a sense the state is telling its people "You buy here, you invest here". Could that also be in media?

Dr Galeotti: Absolutely. Again, we have certainly seen it in the Balkans. I go back to the Balkans because, first, it is an area where they are particularly active and, secondly, it is an area where it has been particularly flagrant. Also, it is often in small-scale stuff, such as "Wouldn't it be nice if you thought it was worthwhile donating some money to this particular alternative media website or to that particular populist politician?" What they are trying to do is create the illusion that this is individual activity rather than a part of a state campaign.

Q140 **Mike Gapes:** Does that include populist politicians within European Union countries?

Dr Galeotti: Yes.

Q141 **Mike Gapes:** Like?

Dr Galeotti: Since I am currently based in Prague, I will give the example of the Czech Republic, where the current Czech President Zeman is not, as I say, a Russian agent of influence, but he is extraordinarily Russia-convenient in terms of his statements and his public positions. When he was standing for president the first time, the Czech who was in charge of the local branch of Lukoil, the Russian oil corporation, donated a big chunk of his own money to Zeman's campaign. That was entirely above board. It was a Czech publicly giving his own money to support a Czech political party. Except that after Zeman had been elected and once Lukoil had decided it was going to pull out of the Czech Republic because it was no longer cost-effective, one of the last things they did was pay off all of this man Martin Nejedlý's debts, including—lo and behold—the money he had just given to the Zeman campaign. That is a fairly obvious example of people being used, encouraged to pay money to populist politicians, and in return the Kremlin will look after them.

Q142 **Mike Gapes:** Following that up, is there a focus mainly on soft power measures and information, or does this extend to investment or purchases in the defence sector to build a relationship between the Russian state and particular countries?

Emile Simpson: For a start, I would qualify the use of the word "oligarch", which is a fairly loose term that can be interpreted in a number of ways. The Russian state acts through companies that are not necessarily controlled by oligarchs but those companies—like Rosneft for example—operate in a completely different way from a western oil major.

Rosneft is heavily involved in Iraqi Kurdistan, for example, and that plugs into the Russian state's wider foreign policy in a way that a western oil major just would not. It has also been associated with activity in eastern Libya and, to an extent, Venezuela. Rosneft is not controlled by any



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oligarch. That is why the oligarch category is somewhat narrow to identify the range of soft power or financial power levers that the Russian state has at its disposal. That said, its boss, Igor Sechin, is sanctioned. But is he an oligarch? No, he is not conventionally classified as an oligarch, but he is an important player in the Russian commercial world who is sanctioned and who advances, in part, the agenda of the Kremlin.

Q143 Mike Gapes: What about the defence sector? Is there any Russian connection to defence sales, or investment in defence manufacturing or defence companies?

Emile Simpson: Yes, Russia has a number of defence companies that manufacture products for the Russian military, so there is an overt connection that is not controversial.

There are areas of controversy. For example, Rusal said on its own website that it produced aluminium powder which was used in weapons manufacture that Russia used. That may have been used in Syria, for example. That has since come off the website, given that it is one of the reasons that it attracted sanctions. Clearly, there are a number of Russian defence companies that supply the Russian military.

Dr Galeotti: If I can jump in, I think you were talking about investment in the foreign defence sector, and the honest answer to that is, directly, not really. They are aware that this is a highly regulated sector. Instead, they have a tendency to look for one remove—not a company that makes planes, but maybe a company that makes parts that go into planes, or perhaps that is involved in providing some services or whatever.

We have seen some suggestions—and they are only suggestions—that in Sweden and elsewhere there have been attempts to move questionable money into the once-removed defence industrial sector, as a way of nudging closer to where intelligence capacity is to be gained.

Q144 Mike Gapes: My final question is a very topical one on disinformation campaigns, internet campaigns—trolls coming out of St Petersburg on Twitter, which I have some experience of. Are any of these people linked to that kind of activity, or is this very much done directly by the state and its intelligence agencies?

Dr Galeotti: If one looks at the Internet Research Agency, the most notorious of the troll farms—which is now moved and called something else—it is a classic example of how the Russian state works.

Formerly, it was private sector company that just happened to be owned by a man personally very close to Putin—Yevgeny Prigozhin, so called “Putin’s chef”—who clearly was being paid by the Kremlin. On one level, it might look precisely like outsourcing activities you want to a private company, but there is a connectivity between rich people—I agree that it is not just “the oligarchs”—and state managers. The apparently sharp divisions that we in the West expect between the private sector and the state mean much less in the Russian context. These things are much more blurred, and they use that to their advantage, to be able to say: “It’s



nothing to do with us. It's just a private thing". Presumably, the Internet Research Agency also did purely commercial work when it wasn't happening to push state disinformation.

Q145 Stephen Gethins: As a quick supplementary to one of Mike's questions, Dr Galeotti, you mentioned a couple of investments in the western Balkans. Is that quite recent or has it been going on for a while, or has investment accelerated?

Dr Galeotti: It is definitely something that I think has both accelerated and become more focused. If you will allow two minutes on a hobby horse of mine, the western Balkans.

Obviously, this is an area with many impoverished states with relatively poor state institutions and questionable democratic transformations, and therefore something of a playground for the Russians anyway—a relatively cheap one at that. Clearly there was a sense in Moscow—I was picking it up from my conversations with people in the foreign and national security sectors there—that it has suffered from a lack of any focus. There clearly had been no Balkan strategy; there were just little bits and pieces happening, much of it being pushed by individual, if not oligarchs, demigarchs, such as a chap by the name of Konstantin Malofeev, a very nationalistic entrepreneur who is also involved in Crimea and the Donbass.

At the same time—and again, it is because of the institutionalised way that the Russian state works—we have seen different areas more or less being assigned to different individuals. Syria is likely the playground for Defence Minister Shoygu; Surkov, a key figure from the Presidential Administration, is clearly Mr Ukraine; and Nikolai Patrushev, who is the Secretary of the Security Council and one of Putin's closest and most hawkish allies—which is a fairly high bar to be vaulting—has basically taken or been given the Balkans himself. Through 2017, we could see discussion going on behind the scenes in Moscow about precisely, "What kind of a strategy do we need in the western Balkans?" and I think that is currently being rolled out. Therefore we are beginning to see, precisely, a much more strategic encouragement in particular areas, both geographic and financial, about how they can maximise the real traction they can get on the area—not because they care about the western Balkans but because it is a useful instrument against NATO and the European Union. So it is coming—I think that is the answer.

Q146 Mr Seely: On the western Balkans, do you think there is an attempt to export to the Balkans the managed conflict model that we have seen in Moldova, eastern Ukraine, Abkhazia and South Ossetia? What I see—correct me if I am wrong—is the arming of groups that can then be turned on or off. Whether they can turn them on after they turn them off is another matter, but they are groups can be turned on and technically turned off, as part of managed chaos in case the Kremlin needs to start a war in Europe to divert attention or to focus the European Union on a close- to-hand conflict—is that wrong?



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Dr Galeotti: I wish it were. I absolutely agree. One of the central Russian concerns in the region, as elsewhere, is essentially to create for themselves a whole variety of instruments that are ready for use when they feel it is useful. One of those is precisely armed paramilitary groups and the conflicts that allow them to mobilise and acquire constituencies.

On the other hand, there is an interesting tension within Russian policy in this respect. On one level, they like chaos in the region and they are very happy when Vučić in Serbia needles the Kosovans, and suchlike. On the other hand, it is clear that they are also increasingly seeing how useful it would be to them if Serbia did indeed join the European Union—as a splendid Trojan horse, for their money, their influence and so forth. Again, one of the tension areas, for them, is: do they want to continue with the strategy of tension, or do they want to encourage Serbia to make nice?

Q147 **Mr Seely:** Where do we see those paramilitary groups? You have got the Baltic, where they can do covert stuff underneath the radar; you have got the Balkans, where they are arming the Bosnian Serbs and handing out passports to Serbs in Kosovo; there is clearly a very significant military operation in Syria; you have got a lot of soft power in dirty money going through Cyprus; you have got lots of threats to the Baltic state nations. Where else do you see these theatres of conflict being marked out by the Kremlin for future use and future violence or conflict with the west?

Dr Galeotti: First, the Balkans is much broader than just Serbia. We are also talking about Republika Srpska in Bosnia, whole Kosovar-Albanian issues and suchlike. Also, the interesting thing is that we have seen them involved in supporting with money, with propaganda and possibly even training and weapons, extremist paramilitary groups in Hungary, for example, and generally speaking in south-eastern Europe, where they are actually playing on a largely mythological notion of the hordes of jihadist migrants who are about to pour through the area. Again, that does two things. It gives an excuse for why there should be these militant groups; but it also gives a convenient potential conflict.

Mr Seely: Are you sure—even I have difficulty in imagining that the Russians—

Chair: Sorry, Bob, we should move on—we have a very tight timetable.

Q148 **Royston Smith:** Can I talk about Russian money and the UK, particularly in London? Has there been any significant movement of oligarchs' wealth away from London since President Putin began his de-offshorisation programme in 2014?

Emile Simpson: It's hard to know objectively, because there is no publicly available information on that. We know that the Russian eurobond issued on 21 March was expressly designed—and advertised as such overtly by President Putin—to encourage repatriation of Russian money, which would include Russian money in the UK. It had a very unusual alternative currency payment clause, which meant that even though the bond was priced in dollars, you could get paid back in euros or in Swiss francs or in sterling. That was because, should the person who borrows



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get sanctioned, for example, and not be able to receive payment in dollars—because dollars that clear through the US financial system touch the US, and so sanctions reach them—that would mean they could still get repaid. So it clearly is intended for the kind of person who might be subject to sanctions—you used the word “oligarch”. That said, there was not, it seems, a huge take-up by Russians based in the UK or even anywhere else in the world outside Russia, of that eurobond offering. It would appear that Russian oligarchs have their money abroad for a reason, which is that they don’t want it in Russia. Actually although that mechanism existed in that bond, it has not actually been used extensively.

Dr Galeotti: May I just add to that, briefly? My view is that there has been money going back into Russia, but it went back into Russia not because of Putin’s de-offshorisation, but because of conditions within the market. Oligarchs will go wherever the market opportunities are. If Putin wants to think it is because they heeded de-offshorisation, that is good for him, but I do not actually see any evidence that it was a socio-political or ideological decision.

Q149 **Royston Smith:** But you were saying earlier that when Putin says, “We want some of your money in Russia for a new palace or for healthcare”—or whatever it is—surely there would be some pressure put on the oligarchs, if that is the right term for them, to buy into these bonds. Why have they not done that?

Emile Simpson: I do not know, subjectively, why they did not. One reason that was suggested was that the bond was supposed to be accompanied by a package of Russian domestic measures to reduce capital tax and to create a tax structure that incentivised repatriation; but that has not come into force yet, and so that may have de-incentivised the Russian holders of money abroad from taking up that opportunity. That is definitely an issue to monitor. If we see the Russian state putting in place a set of tax incentives to encourage the repatriation of Russian money, maybe there will be greater take-up.

Dr Galeotti: Generally, this is not a dictatorship. This is a highly authoritarian regime, but ultimately Putin needs these people to be his managers, and there is a social contract of sorts at work. Sure, Putin could have actually sort of banged the table and said, basically, “I want \$1 billion back in Moscow by the end of next week or else bad things will happen.” He can do that. On the other hand, that damages the social contract, and I think he also at the same time relies on the oligarchs, the business class, to be good business people, because he needs the money that they generate. This is the thing: we are talking about a country with an economy the size of Spain’s that is trying to present itself as a global great power. All these politically motivated initiatives cost; so here is the irony. He would like to see more money come home, but on the other hand, if that becomes economically dysfunctional, it is actually diminishing the overall resources at his disposal, and it is also going to annoy a lot more people. So in a way what he is trying to do, still, at this stage, is encourage people. We are not yet at the point where he is actually going



to start forcing rich, powerful people, who individually are vastly weaker than him in the state, but collectively are necessary for the state.

Q150 Royston Smith: From the UK's point of view—from London's point of view—is it in our interest for people to buy into the bond or to bring their money back, or is it in our interest for them to stay here? Is it in our interest for us to turn a blind eye to what is going on so that Russian money stays in London?

Dr Galeotti: To give an annoying answer, it depends what you want. If the aim is to debilitate Russia, you have to think about whether it is better to have money out of Putin's hands or back in Putin's hands. With sanctions, in some ways we encourage de-offshorisation. We encourage people to move money back into Russia and also these rich people to become more dependent upon Putin because, basically, they will remain rich from the opportunities that he throws in their direction.

Conversely, if we think that what we are looking for is to cleanse Britain of dodgy money, which we might think is a good thing in its own right, then we want to get in his way. Even if in the short term it seems to be playing into Putin's hands, in the long term it helps cleanse the British system. Again, there is no simple answer of this is good and this is bad. For me the crucial issue with the whole sanctions regime is a lack of clarity about what the end goal is meant to be. Until we decide that—I have given you a very long academic answer—the truth of the matter is that I cannot really give you an answer.

Emile Simpson: The key is the goal. If the goal is to put pressure on the oligarchs for political reasons, then one could look at sanctioning that kind of debt issuance. If the goal is money laundering, then one would probably look at other measures because a bond does not discriminate between different kinds of people in terms of who might be more likely to have engaged in that kind of behaviour. So it really depends on what the goal is. If it is political pressure, sanctions work well. If it is money laundering, sanctions can work in conjunction—certain kinds of sanctions, especially ones that do things like asset freezes and so on and travel bans, can work in conjunction with other measures such as the unexplained wealth orders and that kind of thing in the criminal justice system to attack money laundering.

Q151 Chair: Could we go on to one area that has been of particular interest: Russian sovereign debt issuance? You have touched on one of the ways that it is used effectively to breach sanctions. Can you tell me what effect such a move to block Russian debt issuance in London would actually have on the Russian state?

Emile Simpson: Russian sovereign debt does not so much breach sanctions because current sanctions do not prohibit the issuance of Russian sovereign debt.

Q152 Chair: It allows a way round them.



Emile Simpson: Yes. It is a significant if not a fundamental weakness in the current EU and US sanctions regime, bearing in mind that the UK works through the EU sanctions regime. The reason for that is straightforward. When the EU sanctions regime was imposed in 2014 in relation to Russian activity in Ukraine and Crimea, the idea was that certain Russian banks and energy companies would not be able to access EU capital markets. That in turn frustrates their ability to borrow in hard currency. Also there is their hard currency debt and engaging in projects that require hard currency. That in turn is supposed to put pressure on the Kremlin to change its behaviour in Ukraine. It is a fairly straightforward mechanism.

The reason why Russian sovereign debt issuance makes those sectoral sanctions very weak is because the Kremlin has continued to issue debt. It re-entered international debt markets in 2016 and it borrowed in hard currency. It then has a system whereby a series of intermediary banks, which I have listed in my written evidence, effectively engage in repurchased loans with the Russian Central Bank and then they support the sanctioned entities with hard currency loans. So that is the way in which the sectoral sanctions are not nullified but severely weakened.

If the EU—ideally with the US—manage to sanction Russian sovereign debt or find measures short of that, which I have mentioned and which might be politically easier, then it would break that weakness in the sanctions regime and make the sectoral sanctions much more effective overnight. That, in relation to the mechanism that I have laid out, would immediately put a lot more pressure on the Kremlin to change its behaviour in Ukraine and Crimea. It is very hard to calculate exactly what the effect would be in terms of Russian debt. Russia still has its foreign currency reserves, and there is the price of oil to bear in mind, given that Russia is a kind of petro-economy to an extent. It is certainly one factor, and it would send a significant political message about the seriousness of the sanctions regime.

Dr Galeotti: If I can put this in a political context—I know nothing at all about the actual economics; I rely on my colleague for that—I think it is clear from the conversations in Moscow that the presence of loopholes in the existing sanctions regime is one of the things that they point to to “prove” that the West is either not serious about sanctions, or just incompetent. Plugging those loopholes, whatever the genuine impact in rouble terms might be, would probably have a significant political impact in saying that not only is the sanctions regime something that is here to last until there are reasons to lift it, but that we are not imbeciles, we are not weak-willed—

Q153 **Chair:** But would it change Putin’s behaviour?

Dr Galeotti: In my opinion, no—not in the short term. It is part of an accretional process of showing that the West has will. His view has always been that the West has massively greater objective capacities, but it lacks will; it lacks unity, and it lacks will. This is one of the reasons why the recent multinational range of expulsions came as such a serious shock to



the Russians. Again, I was in Moscow at the time. Everyone I spoke to was convinced that the British expulsions and the tit for tat would be the end to it. No one was thinking that there was anything more coming down the pipe, and then suddenly it did. There is no silver bullet, but it is part of simply saying, "Bit by bit, we are locking you in." That is a long-term move to change attitudes.

Emile Simpson: It is hard to say objectively that it will not change Putin's behaviour. It might do, but, as Mark says, he may well not want to lose face and directly change his behaviour in relation to sanctions. However, especially if there is a downward move in the oil price that puts further pressure on Russia, as it did in 2014 and 2015, in conjunction with sanctions, hard currency access will become pretty serious. That reduces Putin's discretion, so he may well have to change his behaviour. It is one of a number of factors, and I think it is a pretty weighty factor.

Q154 **Priti Patel:** Do you think the new approach to sanctions issued by America earlier this month, on 6 April, will lead to a change in behaviours? They are looking at specific entities and specific sectors. Do you think that that is a way forward, and could that shift behaviour and have some kind of impact?

Emile Simpson: Yes. The interesting thing about the additions to the US specially designated nationals sanctions list was that—well, let's go back a step. There are two lists within the US sanctions regime. One is the SDN list I have just mentioned, which targets individuals, and individual entities and companies. That is very serious, because US persons cannot really engage in the vast majority of business transactions with that entity. Then there are the sectoral sanctions. Both the EU and the US sanctions prohibit buying or dealing in bonds and equity, with some exceptions, but otherwise one can engage in normal business with those entities.

The really key element of the 6 April move by the US Treasury was to put not just people such as Oleg Deripaska but his companies, such as Rusal and En+, on the SDN list. That is what created a huge ripple in the markets—Rusal lost 50% of its value within almost a week. If one wants to toughen the EU sanctions, one might want to start to put companies into the EU's equivalent of the SDN list, which currently has no major Russian energy companies on it. That creates a much higher level of sanction, effectively.

Q155 **Priti Patel:** Of course, the ripple effect with the US Treasury doing what they did was felt quite immediately, so that would have sent, I guess, a signal back to the Kremlin as well in terms of the impact. There is new talk with regard to what else is going on in terms of the UK and EU perhaps even looking further at sanctions, and that this could be the way—a new, fresh approach to win other countries over in terms of taking a very targeted approach to sanctions, which would speak to your point about this piecemeal approach sending a stronger signal than just not having the will to act.



Dr Galeotti: What is the signal? One of the challenges is that sanctions are to a large extent signalling instruments in international relations. What is not clear is precisely what the signal is that is being communicated. Obviously, it is a generic, "We think you're naughty; we'd like you to stop." Well, that is all very well, but Putin is embarked very much on a strategy of legacy building for himself. It is making Russia great again. It would be a major reputational hit for him to step back in anything more than very specific and tactical terms. One of the problems I have is that this is a sanctions approach that is clearly targeted and extremely effective—basically, Oleg Deripaska is gone—and if we have more such figures, it basically raises the question with the Kremlin of, "Are you going to refund them? Are you going to look after them and protect them and protect the industries?" and all of that eats into operational capital that cannot be used for anything else, but again, what is the actual endgame? What are we saying we want from Russia? That is what is lacking at the moment. This is technically effective. Strategically, it is not yet refined.

Q156 **Priti Patel:** It is a tool to use, but it is about what the endgame is. What are the lessons that the UK and the EU should be learning off the back of the US Treasury's recent intervention on sanctions?

Emile Simpson: Mark's right about the US sanctions in so far as US sanctions are far looser and more broadly defined than the EU sanctions. The Countering America's Adversaries Through Sanctions Act from August last year grouped together Russian behaviour and Iranian behaviour, for example. In terms of Russian behaviour, it identifies a range of behaviours, not just in Ukraine and Crimea, but also in Georgia, and also the general hybrid threat that I have quoted. It is very hard to anchor that to any particular positive action that the Russian state has to take to unwind the sanctions. The risk is then you have an open-ended sanction regime that may arguably risk entrenching conflict. That is different from EU sanctions. EU sanctions do have a very clear positive action that they are tied to, and that is compliance with the Minsk agreements. The EU sanction regime is reviewed every six months at the EU Council in light of compliance with the Minsk agreements. I think that is the right model. I think that sanctions regimes should look to target specific behaviours and disaggregate those behaviours in the case of a hybrid threat, perhaps, and then target each one. Then there is a positive action to demand, so one avoids the problem that Mark identifies where the goal is not specified and they become open-ended.

Dr Galeotti: Yes, and thanks to the American model, we have a useful instrument, but again the EU or the UK actually can use these instruments but in a different way, with much more clearly specific aims—though I would, incidentally, say that Minsk was stillborn from the beginning, so I wouldn't necessarily want it pegged to that.

Q157 **Priti Patel:** Going back to the US and its intervention and what it is doing now with new sanctions, do you have a view on the overall effect it is having on the Kremlin and in Moscow?



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Emile Simpson: It is hard to know exactly what effect this has on the Kremlin in the short term. When a major Russian aluminium company takes that much of a hit, it is hard to imagine that it doesn't have an effect, but we will see. What is objectively clear is that this move is far more materially significant than anything the EU has done thus far and perhaps alerts us to the need to toughen our own part and get the UK to toughen EU sanctions, if that is politically possible—if the UK does want to send a tougher message. It is also worth noting that there is a Bill that has been introduced to the US Congress to sanction Russian sovereign debt. That Bill was introduced on 6 April in the wake of the Skripal affair, so there could be opportunity to co-ordinate with the United States on that, given that sanctions are much more effective when co-ordinated between the two. That is an area to look at.

Q158 **Mr Seely:** Do you think we have a strategy? If we do not, what should our strategy be? What are our policy objectives here?

Dr Galeotti: I do not see a strategy. Okay, that is just me, but the point is that I do not get the sense that the Russians see a strategy, which is the absolutely crucial element. That needs to be clearly communicated. What should it be? Well, it would be nice to think we can change the whole nature of the Putin regime and save Russians from Putin, but we are not going to do that. Instead, we have to define a set of realistic, specific goals and make it absolutely clear that we have specific requirements, because so much of this at the moment is not clear.

Q159 **Chair:** What would those goals be, in your opinion?

Dr Galeotti: They will range from the negative ones, such as: stop the following series of behaviours that we are clearly seeing, such as state-sanctioned cyber-attacks, state-sanctioned disinformation of a certain level and so on. Those are the negative, "stop it" ones. Then there are the more positive ones, which are things such as what we expect to see in Syria and elsewhere. It needs to be very clear. There is no point in having a secret policy. It needs to be explicit.

Q160 **Mike Gapes:** Going back to the US sanctions, the decision to put sanctions on Oleg Deripaska is clearly quite significant. Should En+ have been allowed to float on the London Stock Exchange?

Emile Simpson: I will not answer yes or no, because that is not a question for me, but in terms of the controversies surrounding that IPO in November last year, one issue was that En+ is the holding company for Rusal. As I mentioned, Rusal's own website says that it supplied military material to the Russian military that was potentially used in Syria. That arguably should have attracted the attention of the regulators, given that the EU has sectoral sanctions on the Russian defence sector. The second reason it was controversial was because VTB Bank, which is a sanctioned Russian bank, has a stake in En+. The third reason it was controversial was that En+ had a loan of almost \$1 billion from VTB. Using the proceeds of the IPO, which raised £1.5 billion here, En+ repaid that loan to VTB in a way that did not breach sanctions. So, yes, it should have attracted more controversy.

Q161 **Mike Gapes:** This was public knowledge. None of these things were secret, so why did the regulator not stop it?

Emile Simpson: That is a good question for the regulator.

Q162 **Mike Gapes:** What do we need to do to ensure that things like this do not happen again?

Emile Simpson: I think there needs to be an investigation into what processes failed in the regulator. There needs to be a look at the regulator's code. More generally in terms of the transparency of our regulation, it would be good if the investigations into sanctions regulation were made public, or at least the gist of them. For example, the Office of Financial Sanctions Implementation in the Treasury has said that it has conducted a number of investigations into cases. Those cases attracted attention because they sailed close to the wind on sanctions. For example, there is the deal by Glencore, which is a Swiss company. It bought a 19.5% stake in Rosneft in conjunction with other investors in December 2016. Glencore is a Swiss company, but it has significant presence in the EU. I went into detail in my written evidence on that. That deal did not breach sanctions, but it would nice to know why. A clear measure that the UK could take would be to make those investigations public. By doing so, we would get a sense of exactly how companies are avoiding our sanctions, and then we can see where we can fix things.

Chair: I will jump in quickly to say that we look forward to sharing this evidence with the Treasury Committee, which is very interested in this area. It will no doubt be taking evidence in its own right.

Q163 **Stephen Gethins:** Mr Simpson, do you think that the UK/EU approach to sectoral sanctions is broadly the right one?

Emile Simpson: The UK's approach is the EU's approach; they are one and the same. I think that, in comparison with the US approach, the EU is right not to have so-called secondary sanctions. So, in terms of who the sanctions touch and who can breach them, the US regime has primary sanctions and secondary sanctions. Primary sanctions affect people—US persons and people on US territory—effectively. There are a few exceptions to that.

What secondary sanctions do is affect people who are non-US nationals who have no nexus to the United States at all. It's a very wide-reaching set of sanctions. They are used extensively in the Iran deal, for example. The problem with that is that they are very legally aggressive and interfere, almost, with the internal affairs of other states. So I wouldn't go so far as to say we should add a layer of secondary sanctions.

That said, like I just said with the opposite point, there is a discrepancy between the wide reach of US sanctions and the narrow reach of EU sanctions, in respect of non-EU businesses—for example, Glencore, who operate in Switzerland—who seem to have a significant presence in the EU and in London but they can none the less buy equity in Rosneft, but a normal UK company could not. That seems to me an area where sanctions could be improved.



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The second way is the one I mentioned earlier, in terms of strengthening the sanctions. Of course, this is not a point made in the abstract. If one elevated the actual prohibited behaviour which attaches the sectoral sanctions to the level of the US individual sanctions list, where you prohibit all business transaction with a sanctioned entity under the sectoral sanctions, as opposed to just buying debt or equity in the company, that makes the secondary effect way more powerful. That would hugely amplify the power of the sanctions.

One cannot say one should or should not do that in the abstract, because one would have to consider the economic implications and that would be the highest level of escalation—the higher end of the ladder of escalation. So it's something to keep in reserve if the situation got that bad, for sure.

Dr Galeotti: May I make a plea for being more aggressive and carnivorous in our approach? One of the problems is that we have made something of a fetish of being precisely symmetrical and specific. "Oh well, we will sanction you if you are specifically"—for example—"involved in providing raw materials for the war effort in Syria."

Now, when I look at how the Russians perceive it, the Russians consider themselves to be in a political war with us—the number of times that Russians are absolutely open about saying that. In those circumstances, we should be thinking about asymmetric responses ourselves and not thinking purely that we have to be sort of slaves to a direct connection across.

Okay, it would be vastly harder in the context of the European Union to broaden the sanctions regime under the current circumstances, but on the other hand the UK could. Obviously, it's harder to go for secondary sanctions, because we haven't got the muscle of the United States behind us, or whatever. But think more broadly about the fact that, in a way, Russian interests do not have to be involved directly with attacking UK interests to be considered to be potential targets.

I think that we need to be thinking in these terms, with more imaginative ways of essentially demonstrating will and capacity to Moscow, rather than thinking, "Well, we'll keep this in our back pocket for later escalation". You don't necessarily need to escalate if you make a strong position early.

Emile Simpson: I have a couple of points to make on escalation. I should have added—it is in my written evidence as well—that there are several layers of escalation in the sanctions regime that we could look to, which fall short of, for example, sanctioning Russian sovereign debt outright, which would be an aggressive move.

The most obvious candidates are, one, to prohibit persons in the EU from buying Russian sovereign debt in which the book runner has been a sanctioned entity. The Russian debt issued this year was issued with VTB bank as the book runner, so VTB bank cannot issue debt in its own right in the EU but it can act as the book runner in relation to Russian sovereign debt. If you prohibited any institution from buying debt that that sanction



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entity has touched, if you like, as a book runner, that would be effective, because it does not prohibit—for reasons I laid out in the written evidence, it is less aggressive because it does not sanction Russian debt specifically. Even below that, you can just put a sanction on the clearing houses, effectively, so you stop the clearing houses making available Russian sovereign debt, then it cannot be traded on the secondary market—it can still be bought on the primary market. Again, that is a step below. It is worth thinking about those levels of escalation. One would probably not want to go directly to Russian sanctions of Russian sovereign debt if you have not tried those steps first.

Q164 Stephen Gethins: As a penultimate question, do you think we are targeting the right industries and businesses? Just building on what Dr Galeotti said, do you think we should be looking at more punitive sanctions as well?

Emile Simpson: It depends in what context. In the human rights context, the Magnitsky sanctions, for example—the US ones that may be taken up by the UK in the context of the Sanctions and Anti-Money Laundering Bill—are effectively punitive, because they punish gross human rights abuses. The thing with a punitive sanction is that is open-ended, insofar as there is nothing the sanctioned entity or person can do to have those sanctions lifted, because they are in the past. There is no positive action, so it is open-ended until something changes politically. That is okay in the individual context, when dealing with someone who has grossly breached human rights, as a deterrent to individuals doing that in future at a global or more regional level, but when one takes a punitive approach in the context of a state, you move into the problem I noted earlier in relation to the US sanctions, where you have a sanctions regime that may entrench conflict because there is no positive action. The other party does not know what they are supposed to do to end the sanctions, so you may make the conflict more entrenched. I would say that one should distinguish between different types of sanctions—maybe punitive sanctions are okay in some contexts, such as human rights sanctions, but in the context of a country's actions, I do not think that the EU sanctions should move to a punitive approach.

Q165 Mr Seely: Very briefly, you talked about political war, Mark. Do you think the notion of a cold war is a redundant term that you do not like, or is it a pretty spot-on statement of fact?

Dr Galeotti: My problem with the use of the cold war is that it has a huge amount of baggage associated with it.

Q166 Mr Seely: Apart from the baggage, is it an accurate term?

Dr Galeotti: "Cold" implies a certain degree of staticness. That is why I prefer the notion of a political war, because it is being fought. Cold war, again, like it or not, has that sense of rigid front lines. If we are in a cold war, we are in the cold war of the 1950s, before the rules and the understandings had been established, and before Russia was ruled by 78-year-olds. This is still in the raw, aggressive, early stages of the cold war.



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Q167 **Mr Seely:** So we are in a fluid cold war?

Dr Galeotti: Quite, but then it starts to get very theological as to what kind of cold war we are talking about.

Q168 **Mr Seely:** May I make a request as well? The stuff that you have just come out with, Emile, is it possible for you to briefly set out some of those layered sanction options so that we can understand them? Obviously, you are super-smart. I think you are a bit smarter than I am, because I do not quite understand what you are saying. Could you just say option 1, option 2, option 3—as an example of layered sanctions?

Emile Simpson: Sure. It is in the written evidence, but I can unpack that. Effectively, level 1 is the clearing houses. That is the least—the word aggressive is probably wrong—impactful. Then you go for the book runners, they are the entity that organises the issuance of sovereign debt. Then sovereign debt itself.

Mr Seely: I am aware of time—I am probably going to get told off—so if you could put it down in writing so we can examine it, read it a few times and understand it, that would be helpful.

Emile Simpson: Sure.

Chair: Bob, were you going to ask about Magnitsky?

Q169 **Mr Seely:** Yes, I would be keen to ask about the strengths and weaknesses of the Magnitsky Act. Has the US sanctioned the correct individuals and what more could we be doing on that front, Mark?

Dr Galeotti: On the whole, I have absolutely no problem with punitive sanctions against human rights abusers. What I would like to make sure, though, is that they are not just Russian human rights abusers. One of the problems is that, at the moment, the Putin state can use it to provide talking points for its own legitimating narrative, which is basically that, “The west just hates Russians and that is why we are in a fight, because the west hates us.” So let us absolutely go after human rights abusers and so forth. More generally, this issue of individual sanctions is still dramatically underused in my opinion. I know it is very difficult from a legal perspective, but we should look much more at families and dependants, people who are the bag carriers for our targets. The most powerful people in the Russian system—people within the security apparatus and so forth—are basically beyond our grasp, but on the other hand—

Q170 **Mr Seely:** Are you saying that the political price of freezing Putin’s assets is so great, coming close to hot war because he will really kick off, that we cannot do that?

Dr Galeotti: No, no, no. Putin’s assets—by all means go after them. I do not think that is a crucial thing for him. Putin is not, in my opinion, primarily in it for the money. He is not going to retire to an agreeable villa in Marbella and go and play golf. I think, basically, he is about power and his own historic legacy. On the other hand, the people around him



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absolutely are in it for the money, and that is precisely something we should be considering, not because they are all going to rebel against him. We are in some ways playing two fights: one is to change Russia now, in terms of stopping certain behaviours, and another is for the next generation.

Q171 **Mr Seely:** So this is about slightly stressing the system now to encourage change.

Dr Galeotti: Absolutely.

Q172 **Chair:** So the argument really is that the Foreign Office should not just be focusing on today's Russian policy but be conducting a Russian strategic review, if you will, so that there are two stages: one is to stop the Salisbury murders, the Syrian abuses and suchlike, and the second is the post-Putin era, perhaps.

Dr Galeotti: That is absolutely crucial.

Q173 **Chair:** Do you see any evidence that the Foreign Office is doing so at the moment?

Dr Galeotti: There are many smart people in the Foreign Office—

Q174 **Chair:** I will take that as a no.

Dr Galeotti: One of the issues is that this is not a Foreign Office issue—

Q175 **Chair:** It is a cross-Government issue.

Dr Galeotti: Exactly. The Foreign Office is the institution. For example, one of the things we need to be looking at, which is separate from this, is fighting this notion that we hate Russians. We should also be working out ways of love-bombing ordinary Russians, which is, perhaps, much more about visa-free travel, student grants and all these other things that are way outside the Foreign Office's remit.

Q176 **Mr Seely:** Do you agree that it is slightly ludicrous that if you are enough of a rich crook you will get yourself an EU passport and be able to travel freely but if you are a nice Ruski, who wants to do a PhD or just come here for a couple of years, you haven't got a hope in hell of getting here? We bang on about how much we like the ordinary Russian people, but we make it impossible for them to get here. The more dodgy you are, and the richer you are: come and live in Knightsbridge.

Dr Galeotti: Absolutely.

Mr Seely: Absurd.

Emile Simpson: On the Magnitsky sanctions, I want to add that it is important to distinguish regarding what we were speaking about at the start, which is the goal of a sanctions regime. I think one should be cautious about conflating the Magnitsky sanctions with the country sanctions. By all means, if one wants the deterrence of gross human rights abuses as a goal in its own right, the Magnitsky sanctions are an appropriate tool to do that. When one starts using that as a means of

putting pressure on the Russian state, which is a different goal, one is conflating two different objectives and, because they are basically punitive, one is moving into an open-ended sanctions regime. I am fine with the Magnitsky sanctions as a human rights tool, but I would be wary about going down the US road where all sanctions are conflated and it is very hard to see what links to what. Sanctions are effective when they are linked to clear goals that the state can take to reverse them, and you cannot reverse a punitive sanction.

Chair: Thank you both very much indeed. You have been extremely clear and succinct so I am extremely grateful for your time, particularly for the written evidence you have submitted, which is extremely useful. Thank you very much indeed.

Examination of witness

Witness: Garry Kasparov.

Chair: Welcome, Garry Kasparov, to this afternoon's session of the Foreign Affairs Committee. Thank you very much for making time for us.

We have heard from other witnesses in recent sessions that it is impossible to make a fortune honestly in modern Russia, and that all the wealthy oligarchs are, by definition, linked to and supporters of President Putin. Do you agree with that?

Garry Kasparov: Absolutely. I think the system was established in the 90s, during Yeltsin's time, when having state influence was essential to making a fortune. Under Putin this system was in the process of being formed, so it became a rule¹. I always say that, in Russia, corruption is not a problem—corruption is the system.

Q177 **Chair:** Sorry, forgive me, the line was pretty bad. Did you say at the end that Russia has got a problem?

Garry Kasparov: No. I always say that, in Russia, corruption is not the problem—corruption is the system.

Q178 **Chair:** Okay, thank you. That makes much more sense. Are the contemporary oligarchs different to their predecessors of 10 or 20 years ago, in the 1990s—the first ones after the fall of communism?

Garry Kasparov: Yes, but I would say that the difference is that, in the '90s, oligarchs had freedom to support different media outlets. We had so-called wars among oligarchs, and that helped the public to make a choice during elections. Under Putin, the oligarchs have no more political power, and they entirely depend on Putin and his cronies.

Q179 **Chair:** The question then is, what happens to those who do not support

¹ Note from witness, should read as: 'Under Putin this system became official, and it became a rule'



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the President?

Garry Kasparov: I think it became clear after Putin went after independent media in 2001, destroyed Vladimir Gusinsky's media empire, and, later, destroyed Yukos and imprisoned Mikhail Khodorkovsky and some of his closest associates, that any move by an oligarch that is not authorised by the Kremlin will be punished severely.

Q180 **Chair:** Given the binary nature that appears, is it possible for anybody, even abroad, to be neutral about the Putin regime?

Garry Kasparov: Technically, yes, unless this person has any commercial interest in Russia. He or she must know that his or her interests will be damaged or even confiscated instantly if the Kremlin's supporters are not okay with things.² Even those who are not keeping their interests in Russia are still worried about the Kremlin's ability to harm them in any way possible, including physical harm. That is why I would be very surprised if any Russian oligarchs of recent times could not be friendly to the Kremlin's requests³.

Q181 **Stephen Gethins:** Mr Kasparov, first, thank you for joining us today, and I hope you can hear me okay. Can I ask you about the new US sanctions? What do you think of the new sanctions imposed by the US Treasury at the start of April?

Garry Kasparov: I wish the sanctions had been imposed after Crimea's invasion and annexation, because that could probably have prevented Putin from further escalation in eastern Ukraine or in Syria. It is the same cycle. It is too little and too late, though it is still more than expected, and it is definitely a step in the right direction. I hope that it will not be the last station, because there are so many other things that can be done to make oligarchs, bureaucrats and those in the military apparatus to evaluate the price of Putin's brazen foreign policy.

Q182 **Stephen Gethins:** In terms of your criticism about this being too little too late, what else do you think the US should have done, or what other considerations do you think that policy makers such as ourselves should be considering when applying these sanctions?

Garry Kasparov: In general terms, the goal of sanctions is to change Putin's aggressive behaviour—to deter him in his hybrid wars, real wars, propaganda and assassination. I understand that regime change is not a real solution beyond official—[Inaudible]—policy.⁴ The only way to do this is to threaten the only thing Putin cares about: money and power. The power he needs to keep it and to get more. People want to come up with something more complicated, but it is about money and power. There is no ideology in Putin's foreign policy; it is not about Russian greatness or a neo-USSR. That's just propaganda for Russian domestic consumption. One

² Note from witness, should read as: '...if the Kremlin's orders are not properly executed'

³ Note from witness, should read as: '... to the Kremlin's requests to follow one path or another'

⁴ Note from witness, should read as: 'I understand that the regime change that is the only real solution cannot be official or public foreign policy.'



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of the most important things that can be done now is to cut Putin's foreign propaganda tools, which he is using most effectively to poison and brainwash public opinion in the free world and undermine democratic institutions in Great Britain, the United States and across Europe.

Q183 Stephen Gethins: This is my final question. Do you think cutting the foreign propaganda tools is more important than the economic sanctions, in terms of effectiveness?

Garry Kasparov: I think that, right now, economic sanctions are really tougher. It is very important to make sure Putin's closest supporters are not able to let their families run these fortunes that are being kept outside Russia. A lot of them are in China as well, but they are also in your country, North America and other European countries.⁵ But propaganda is key, because Putin knows that the last mistake a dictator always does is to look weak. That is why the propaganda is a very important issue—to project strength. Even if he is not very successful, as in eastern Ukraine or in Syria, he is trying to present himself as an invincible leader. That is why, if you have the chance to cut this propaganda and to make sure it will not help Putin promote his image of a strongman around the world, it will be a great help in undermining Putin's image inside Russia.

Q184 Mr Seely: Can I just ask about that, Mr Kasparov? You are saying that there is no ideology. I would like to question that, because there is certainly a narrative, isn't there? There is the state narrative of victimhood. There is the pretty relentless Orwellian propaganda on Russian state media broadcast outlets. There is a state propaganda line. You could almost say that this is a rerun of 200 years ago, when you had orthodoxy, autocracy and nationality as a basis for identity, which then contrasts to horrible, corrupt, gay Europa. Do you have an opinion on that?

Garry Kasparov: When I said it's not about ideology, I meant ideology as it was in the Soviet Union. The Soviet propaganda machine was quite straightforward: it promised us a bright future—it was fake, but at least it tried to stay positive. Putin's propaganda is different: it⁶ It is not offering any future vision; it is all about Russia being surrounded by enemies, and Vladimir Putin being the only white knight to defend mother Russia against the whole thing.

Q185 Mr Seely: But that nationalism is an ideology in itself.

Garry Kasparov: The nature of Putin's regime is more like a mafia structure. You should probably read Mario Puzo's "The Godfather" rather than any books on political science. It is all about loyalty—100% loyalty in exchange for 100% protection. That is why Putin is so sensitive to

⁵ Note from witness, should read as: 'I think that, right now, economic sanctions are really toughening up, although it is very important to make sure Putin's closest supporters are not able to let their families run these fortunes that are being kept outside Russia—and not in China or Venezuela, but in your country, in North America and other European countries'

⁶ Note from witness, should read as: 'it's more like a cult of death.'



sanctions like Magnitsky. Even if they are aimed at low-key [low-level] officials, at the end of the day the mafia boss must protect every hitman to secure total loyalty to him from the entire group. Look at the messages that Putin is putting out: they are too broad to be called pure ideology. Because he is quite comfortable praising the far left or the far right.⁷ He is supporting Melenchon and Le Pen. At the end of the day, it is about anything that destroys the status quo and helps him to play games.

Q186 Mike Gapes: How do you assess the difference in the approach by the European Union and the US to Russia, in terms of sanctions?

Garry Kasparov: As it stands now, I think the US sanctions are more meaningful. You also have to recognise that sanctions are not just about the balance of the economy. Obviously, anything that comes from the United States is treated with more fear and respect by Russian companies and also by the Russian Government.

On current relations with the United States, there is great disappointment because there were such high expectations after the election. The Russian propaganda machine was celebrating and predicting an era of Russian-American co-operation and that the Trump Administration would go straight to Putin as an American ally⁸. What has happened in recent months, weeks and even days—for instance, the combined operation of American, British and French forces in Syria—was definitely a great shock and blow to that expectation.

That is why the recent American sanctions had a much bigger effect than anything that happened in Europe. Also, in Europe, Putin feels that he has enough supporters and lobbyists in the highest positions—some of them at the top of European Governments—who will block the worst-case scenario.

Q187 Mike Gapes: Should the European Union and the UK change our approach and move towards a more punitive approach on sanctions, rather than a more narrow focus on specific actions?

Garry Kasparov: As I said, psychology is very important. For instance, I would strongly recommend looking at the shortlist of those who are instrumental in the regime. There are some key persons there who have been spreading hate and poison in Russia. They are simply denying that anybody in Europe⁹ could send a signal to others that there is a price to pay. I think the best way to proceed is to concentrate on individuals, forcing others to use their loyalty to Putin¹⁰. It will have a price, and many of them will go, "Oh, I am not willing to pay."

Q188 Mike Gapes: So it is not a question of changes in behaviour; it is more about the overall way that the regime works.

⁷ Note from witness, new insertion: 'He supports Die Linke in Germany, and also the AfD.'

⁸ Note from witness, should read as: '...Putin ignoring traditional American allies'

⁹ Note from witness, should read as: 'Simply denying them entry to Europe...'

¹⁰ Note from witness, should read as: '...forcing other to test their loyalty to Putin.'

Garry Kasparov: Yes. Regimes like Putin's work on loyalty, because people see benefits for serving the dictator, and for fulfilling his agenda, however brutal and cruel that is. It brings them benefits; otherwise, they face consequences. Now, if they all recognise that there is a price to pay for following Putin's orders, I believe that they will start considering their actions. Even if they don't do it openly, the system will be acting slower and less effectively.

Q189 **Mike Gapes:** How long will this take?

Garry Kasparov: I have no idea how long it will take, because definitely Putin has used the last few years most effectively by demonstrating strength. But I know from history, having read quite a few history books, that a dictator who looks strong was never attacked; he never faces any threat of coup d'état, or palace coup. A dictator who looks weak is always in grave danger, and I think the current economic situation in Russia may encourage some people to consider more dramatic actions. Let us put it this way: it is not necessary to have dramatic actions; for instance, it would be enough for the generals that are in charge of riot police to be less proactive in following Putin's orders, and that would immediately be translated into mass protests that will lead to political change.

Q190 **Royston Smith:** There is a big picture in all this, but it has been said by a lot of people that regime-connected individuals should be stopped from buying property in the UK or sending their children to school here. Do you think that is a sensible option?

Garry Kasparov: Yes, absolutely. Again, it is all about paying a price for being part of this world damage¹¹.

Q191 **Royston Smith:** How would that be consistent with UK values of openness and the rule of law? Would that not mean us compromising our own values?

Garry Kasparov: I understand your concern and, yes, it will definitely go against certain fundamental values of the free world, unless you recognise that you are at war, because Putin is at war with the free world. It is a hybrid war; in some places it is not just hybrid—it is a cold war¹². When you are at war, you definitely look for some abridgement of human rights. In this case, you are talking about enemy interests being harmed by taking decisions to limit their ability to reward those who are instrumental in building the propaganda machine¹³.

Q192 **Royston Smith:** If we look at the expulsion of diplomats post Salisbury, in the event that the UK took some action against property owners or Russian oligarchs that were sending their children to school in the UK, we would expect some sort of tit-for-tat, wouldn't we?

¹¹ Note from witness, should read as: '...part of doing this horrible damage.'

¹² Note from witness, should read as: 'it is a real war'

¹³ Note from witness, should read as: '...instrumental in military work and the propaganda machine.'



Garry Kasparov: I think diplomat expulsion is not a measure of that scale to me, because that happened many times during the cold war. He could easily do the same with your diplomats and American diplomats, and that is what he did. There is a way to react to the action committed by another state.¹⁴ You should do something that they cannot respond to by doing the same thing. You should go after people who have been living very comfortably in your country or in other free countries by getting and spreading Putin's influence. Most of them—maybe some of them—have been spending and investing their money not just to have fun or to build a comfortable life abroad, but to buy Putin influence.

Q193 **Royston Smith:** In the event that the UK decided to take that sort of action, what would we expect President Putin to do in response?

Garry Kasparov: I don't know. I don't think there's much he could do, because he is already facing problems.¹⁵ He is trying to invent responses to American sanctions. For instance, recently the puppet state Parliament of Russia decided to look for such drastic actions as banning all US-imported medicine. Naturally, trying to respond¹⁶ will hurt a lot of people in Russia, and this harm will be caused not by the sanctions directly, but by the attempt to look strong by responding to the sanctions in imaginative ways that are not going to be taken well by all Russians.

Q194 **Chair:** Garry, we worked together on your campaign when you were running for chairmanships of FIDE, the Fédération Internationale des Échecs—the International Chess Federation. While you were campaigning, you were very clear about the involvement of the Putin regime in sports federations. Could you talk a little about Russian state involvement in sports federations?

Garry Kasparov: This involvement has a long history; it goes all the way back to Soviet days, when the KGB discovered that international sport organizations would be a perfect opportunity to spread its influence, because they looked apolitical. It also they had certain immunity against fraud investigations, so the bank accounts could be used for certain clandestine operations that otherwise would be subject to thorough investigations by the fraud authorities.

I have plenty of experience with the chess federation, or FIDE. In 2014, this influence was felt. They are not even hiding the fact that to preserve Mr. Putin's crony and confidant, Mr Ilyumzhinov, they mobilised Russian embassies around the world. In many countries, there were direct approaches to delegates, demanding to drop support for Garry Kasparov, who was the enemy of the Russian state. They used blackmail and, of course, bribes to bring people on board.

¹⁴ Note from witness, new insertion: 'As I said, I would rather treat Putin's regime like a gang, target the individuals in power.'

¹⁵ Note from witness, should read as '...facing problems- within the rank and file.'

¹⁶ Note from witness, should read as 'Naturally, the things like this Putin might do by trying to respond...'



It is not surprising. Mr Ilyumzhinov has a history of visiting the most awkward places—not awkward from the chess perspective—and delivering messages from the Kremlin, like to Libya in 2011, Saddam Hussein’s Iraq in 2003, and Bashar al-Assad’s Syria in 2012. That dealing was sanctioned by the US Treasury, for nothing less than organising transports to pay for trade in illicit oil with Assad’s regime. He is still under sanctions despite all his efforts to get business¹⁷.

That is another confirmation that our federation has been used the whole time¹⁸ by the KGB to cover up operations that have nothing to do with the game of chess. I have no reason to think otherwise about other federations, that Russia, through means of blackmail and bribes, have significant influence.

Q195 **Chair:** Would you include, for example, the World Cup in that?

Garry Kasparov: Absolutely. It is very clear that Putin wanted to get the World Cup at any cost, in the same way he wanted to get the Sochi Winter Olympics in 2007. The Russian authorities knew that they had to do whatever it would take to satisfy the dictator’s wish.

Q196 **Chair:** Just to clarify, on the visits of Ilyumzhinov to places such as Libya, how many registered chess players for FIDE are there in Libya?

Garry Kasparov: I don’t know the number, because I doubt very much that the game of chess has been very popular in Libya, Iraq or Syria. I can probably say that there are many people who know how to play chess in every country in the world, but from the point of view of the development of the game of chess, those countries would not be at the top of my list. Especially at the time when it was chosen [for Ilyumzhinov] to visit these places—I emphasise again, it was early spring 2003 in Iraq, it was Libya in spring 2011, and it was Syria in 2011-12. I guess there is some reason¹⁹ in the difficulties faced by the dictators in those countries, and the Kremlin’s point is to send messages not through direct diplomatic channels.

Q197 **Chair:** In summarising your points, would I be correct in saying that some sports federations, such as the chess federation, are effectively being used as a cover for state activity—possibly bribes, possibly message-giving—and others for propagandising, and that bribes and other forms of coercion are used to achieve them, such as the Olympics and the World cup?

Garry Kasparov: Absolutely.

Q198 **Chair:** Thank you. Can we move on? You recently told the *Los Angeles*

¹⁷ Note from witness, should read as: ‘For that dealing, Ilyumzhinov was sanctioned by the US Treasury, for nothing less than organising transfers to pay for trade in illicit oil between ISIS and Assad’s regime. He is still under sanctions despite all his efforts to get off this list.’

¹⁸ Note from witness, should read as: ‘...has been used for a long time...’

¹⁹ Note from witness, should read as: ‘...there is some coincidence...’



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Times that people no longer ask you why you chose to live in New York and not London. Would you fear for your safety in London more than you do in New York, and if so, why?

Garry Kasparov: I had to make a tough choice where to live, after I had no other choice but to leave Russia, because in 2013 I was summoned by the Russian Investigative Committee to be a witness in several political cases that it had opened against the political opposition. The late Boris Nemtsov gave me wise advice saying, "Garry, don't go back to Russia, because if you enter that building"—he meant media pressure—"as a witness, when you leave the building you are most likely the suspect."²⁰ So stay away." It is very unfortunate that Boris was too brave to follow his own advice.

I looked at several options. Obviously, I wanted to live in an English-speaking country, but London was not a good choice for me, simply because of the number of Russians and the massive Russian interests—commercial and political—that are visible in London. While I understand that no one is safe if they choose this path of criticising Putin, if you live abroad it's simply about reducing the risk. Naturally, in New York there are far fewer options for the KGB, but there are still possibilities; I understand that I am not beyond obvious danger from Putin's clandestine activities. In London, the risk was simply too high, because for their operatives it is easy to hide in the crowd of Russians who are spread around the city. There are many areas of London that Russians ironically call "Londongrad".

Q199 **Chair:** Why is London so popular for so many Russians?

Garry Kasparov: One of the reasons is probably geographic proximity, and the financial laws in the UK are more relaxed compared with the United States in terms of accepting Russian money. They just found opportunities to spread their political and financial influence. It started with Mr Abramovich's decision to buy Chelsea. They saw that they could build a strong business in London, which was convenient from both political and financial angles. Having said that, that did not mean they ignored the United States. There has been a significant increase in Russian influence there, but there is not the same density as in London. There, we have Russian pockets—Miami and maybe some other places—but New York and Washington are not even close to London in terms of their ability to make their presence visible.

Q200 **Stephen Gethins:** You say that financial laws are more relaxed in London than in the USA. Why would Russian nationals choose London over other European cities?

Garry Kasparov: English. Language is important. But also, London was the financial capital. It is far more convenient to operate from London. Language is one of the key elements. There again, looking at the

²⁰ Note from witness, should read as: "Garry, don't go back to Russia, because if you enter this building"—he meant the Investigative Committee of Russia—"as a witness, if you leave the building, if you leave the building, you most likely leave a suspect."



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European continent, from Riga to London, you will find Russian money any place.²¹ We can also talk about European capitals for money laundering operations. There is Riga, obviously, and Cyprus. I think Austria is now one of the countries with the heaviest Russian financial presence. But you will find traces of Russian financial interest in almost every European country these days. There will be some of their money in Austria, Cyprus, Greece, Malta, Latvia and London these days, and maybe some in Germany. Some of these areas are just more visible.

Q201 Chair: Given that the ability to move money into London and therefore the potential use of dirty money in London is one of the draws that you set forward, what do you think the UK Government could do to drive corrupt money out of the City?

Garry Kasparov: Going back to the question I was asked a few minutes ago about preferring British law²², the fact is that people who live within Britain's borders are protected by laws that guarantee their rights. There are many laws of the land in your country that would enable you to find their money, provided there was political will to start a process. The Government have made a few decisions lately on disclosure of the origin of money, and I applauded those efforts. There is more to be done, but definitely, from what I have read in the press and on the internet, there is some sense of a panic among many Russians, because they used to consider London a safe haven where nobody asked questions before.

Q202 Chair: So already there are some changes that are making a difference.

Garry Kasparov: Yes. People are feeling less comfortable. At the end of the day, sanctions and all other measures aimed at the commercial interests of rich Russians should have a psychological effect. They should recognise that Vladimir Putin is no longer fulfilling his end of the bargain by offering them true protection both inside and outside of Russia for their money. When Putin is no longer seen as an ultimate defender of their personal risk, they may decide that the loyalty they give is no longer a good option.

Q203 Chair: So the feudal relationship, as it were, goes both ways.

Garry Kasparov: Yes. It is a wider way to say it, but in this case it is in money, so that is why I use mafia terms. At the end of the day, it is very simple: loyalty in exchange for protection.

Chair: That is extremely clear.

Q204 Mike Gapes: I am interested to know your assessment as to whether you believe that Putin has now got a power base that is much stronger than he had before, or has he got significant vulnerabilities?

Garry Kasparov: As has happened in history many times, the power of the dictator in reality is very much founded on the weakness on both sides. I used to say that Vladimir Putin was not playing chess—actually, I

²¹ Note from witness, should read as: 'you will find Russian money many places.'

²² Note from witness, should read as: '...referring to British law...'



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was always annoyed to hear that analogy and I always thought that I had to defend the integrity of my game—because dictators are not chess players. Chess is a strategic game and it's 100% transparent. Dictators play other kinds of games. I think Putin was a very good poker player, because he knew that in poker you can win with a weak hand—I would say a pair of fives—by bluffing and raising the stakes, if your opponents always fold their cards. Every time Putin bluffs and the West folds their cards, Putin gains more authority—not only in self-confidence, but among his cronies.

President Putin's actions, including the one in Syria, are used as a cold-blooded calculation: if he could show his friends, as a result of the weakness of the opposite side, that will benefit him at home.

For instance, I believe that Bashar al-Assad's survival is one of the key elements of Putin's success in staying in power in Russia, because when Obama said in 2011 that Assad must go, Putin said, "Assad will stay." The fact that Assad is still there—and even stronger than a few years ago—is a very powerful argument for many in Russia to decide against taking a stand against Putin.

Q205 Mr Seely: Do you think Vladimir Putin is a great tactician, a great strategist, both or neither?

Garry Kasparov: I think he is a great tactician. I give him credit for being a phenomenal opportunist by grabbing every opportunity presented to him. Again, strategy is a chess term, and I do not think that dictators who are in power for 18 years can afford the luxury of being strategists. Strategy needs to be more about thinking many moves ahead. Dictators' only interest is to stay alive.²³

Q206 Mr Seely: Let me ask you about that. Look at Ukraine, for example. The Kremlin's strategy is to prevent Ukraine from moving into the western orbit. So the war was a tactical and operational tool to prevent a strategic action—the movement of Ukraine westwards politically—which is one of the great pivots of Europe and indeed the world at the moment. Ukraine is a very geopolitical country. Would you not say there is strategy there?

Garry Kasparov: Yes. But let us not forget that Vladimir Putin made his strategic intentions very clear in the spring of 2014. After the annexation of Crimea, he came out publicly promising so-called Novorossiia, which was a "New Russia" stretching from Lugansk to Odessa. That new quasi-country had to include ten independent regions of Ukraine. As a result, we know that we ended up with only 60% of two regions—Donetsk and Lugansk—and that was a clear failure of his strategic intentions. The fact that this was his strategy could be proven by Russian propaganda—printing new maps and expecting it would be divided in a very short period of time.

²³ Note from witness, should read as: 'Dictators' only interest is to stay alive²³ tonight, and the next night.'



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I would argue that Ukraine was the biggest failure strategically, because by 2014 Ukraine had a very strong army. The biggest blunder that Putin made was his expectation of bringing everyone in Russia on his side.²⁴ If you look at the war and peace in eastern Ukraine, it starts as a war²⁵ between Russia and the Ukrainians, supposedly, but it is mostly between Russians and Russians. The majority of Ukraine's soldiers are fighting on that front, and Russians decided against embracing Russia and joined the Ukrainian army.

Q207 Chair: You also spoke about strategy there. Of course, one of the strategic questions for the west, and the UK in particular, is what is the strategic end that we are looking for from sanctions? Do you see a strategic aim, either from the UK or from the west more generally? If you don't, what would you, as one of the world's great strategic thinkers, see as the strategic intent that we should be aiming for?

Garry Kasparov: It is very difficult to evaluate the effect of the sanctions in a short period of time. The language of deterrence is a tough one. Naturally, people prefer reason²⁶; naturally, people prefer more of a soft diplomacy based on ends that serve common interests. That, unfortunately, helped Putin to gain more confidence and to make political gains. In the case of deterrence, we should probably consider not only the immediate result of this action, but what was prevented. What future actions that Putin could have been planning were prevented by sanctions because the price of this new aggression went up?

I would say that it is not a question of if Putin decides to act and attack elsewhere, but only of when and where. Putin has an aggressive foreign policy. War is domestic propaganda.²⁷ That is a terrible shame. Living standards have been dropping²⁸, propaganda concentrates exclusively on Putin's accomplishments in foreign policy, presenting him as the defender of Russia. That is why he has no way of going back and no way to go back to any compromises. His only rational—from his perspective—policy is raising the stakes.

Q208 Mr Seely: How do you define the relationship between Russia and the west now? It seems to be a fairly classic cold war, but some people do not like that term. Do you like it? When do you think it started? How long has the Kremlin been planning for it?

Garry Kasparov: I would also be very cautious about making direct parallels with the cold war. The cold war was a fight between two alternative visions of the future. Though I'm not going to say there was any truth in Communist propaganda, as I have already said some time ago in this testimony, the Soviet Union tried to sell a positive vision of a bright

²⁴ Note from witness, should read as: '...his expectation of bringing [Ukraine's] ethnic Russians to his side.'

²⁵ Note from witness, should read as: '...it not a war...'

²⁶ Note from witness, should read as: '...people prefer appeasement...'

²⁷ Note from witness, should read as: '...it's the core of his domestic propaganda²⁷.'

²⁸ Note from witness, should read as: 'With the economy being in such terrible shape, and living standards²⁸ have been constantly dropping.'



future; Putin doesn't care. The Russian people are fully aware of the standards of life elsewhere. It is not the '60s, '70s or even the early '80s; there are many opportunities provided by new technology for millions and millions of Russians to learn about life in the UK, continental Europe and the United States—set aside the fact that many of those Russians are free to travel. But they do not want to take a strong stand against the regime unless [the regime] hurts their interests. So far Putin has managed to minimise the pressure in Russia by using the enormous amount of money he could allocate, during the era of very high prices for energy, to buy this social apathy. He could have a form of social peace and at the same time offer Russian oligarchs and well-off people an opportunity to keep their lifestyle.

Q209 Royston Smith: Mr Kasparov, you said that the only things President Putin is interested in are money and power. If that is the case, and if the west continues to view Russia in the way that they do, sanctions bite more and other countries take more action, then money and power will start to ebb away. Isn't it, then, in his interest not to be poking the rest of the world with a stick the whole time?

Garry Kasparov: That is a vicious circle. Every dictator eventually ends up with this dilemma. There are many books written about whether Hitler could have stopped in 1939 or not, and what if he had stopped? The answer is that dictators cannot stop, because they have to move on with their agenda. I think that the west comes out thinking, "What if Putin decided against annexing Crimea or starting into Eastern Ukraine?" The economy was no longer his friend; the economy was no longer his ally to secure his claim for power. This is a powerful argument for his endless stay in power and conflict with the free world. All the confrontation is the only way to move forward, even recognising the fact that some of the foreign assets of his regime might be in danger. But also I think Putin implicitly believes that the west doesn't have the political will to move against him, and he believes that with this kind of money—I think we are easily talking about \$1 trillion of Russian money, if not more, spread around the free world—the west will be paralysed, because any actions would jeopardise²⁹ the entire financial and political system.

Q210 Chair: Mr Kasparov, you have answered all our questions very fully. Thank you enormously for taking the time out of your diary today to be with us. We are extremely grateful.

Garry Kasparov: Thank you very much for inviting me.

Q211 Chair: If, of course, you think that there is something supplementary that you wish to add, please do so either now, or of course in writing. You would be very welcome to contribute.

Garry Kasparov: I will take your invitation to write something else—some written materials just to clarify some of my positions.

Chair: That is extremely kind of you. Thank you very much indeed.

²⁹ Note from witness, should read as: '...because any actions could jeopardise...'



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