

\$850m

A Dance With The Cobra

Confronting Grand Corruption in Uzbekistan

Professor Kristian Lasslett, Fatima Kanji and Dáire McGill

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1. Executive Summary

1.1 Background

In 2012, a series of media exposés broadcast evidence implicating European and Russian telecommunications companies in a bribery scandal centring on Gulnara Karimova, daughter of Uzbekistan's former President Islam Karimov (1991-2016). Subsequently, the United States Department of Justice launched civil forfeiture actions to recover \$850 million in financial assets alleged to be the result of bribery in Uzbekistan's telecommunications sector.¹ The latter's passage through a series of Latvian, British and Swiss bank accounts, linked these assets to shell companies incorporated in the British Overseas Territories, which Karimova is alleged to have controlled through proxies.

Tabloid accounts of the scandal portray Gulnara Karimova as the Uzbek princess, an indulged daughter of a Central Asian despot, who exploited her father's position to live an ostentatious, jet-setting life. This has kept the spotlight on Karimova's celebrity status. As a result, the extensive supporting cast of offshore banks, foreign advisers, and secrecy jurisdictions, implicated in her activities have not been given the same exposure. Neither has the systematic forms of state violence and institutionalised racketeering, that underwrite grand corruption in Uzbekistan.

Uzbek authorities have played on Karimova's tarnished public image, arguing that the state is a victim of her corrupt activities. The government maintains that Karimova, and her conspirators have been arrested, tried and imprisoned.

If the US Department of Justice convince the New York Southern District Court that the \$850 million is linked to criminal activities, difficult policy questions will emerge. Can the funds be returned directly to the Government of Uzbekistan? Or, instead, should they be employed to compensate the victims of the corruption? In which case is there a reliable basis for identifying victim groups given that grand corruption is by its nature supposedly discrete, hidden and of a financial character?

These questions emerge in an international context where there is growing resolve to confront grand corruption, and kleptocracies. Indeed, a significant contingent of jurists, scholars, civil society organisations and states, frame grand corruption as one of the most egregious international crimes today, owing to its impact on security, development, democracy, and human rights.

A growing policy drive to combat grand corruption, has prompted law enforcement initiatives targeting prolific actors, and their assets. Although, problematically the liberal financial, corporate and capital regimes, which have become engrained parts of the kleptocratic edifice, remain largely untouched by any substantive reform effort.

Given its impact and nature, the Uzbek case is a crucial test of the international resolve to combat grand corruption. The case itself demonstrates the transnational and institutionalised nature of grand corruption, and the associated difficulties this poses for state-centric models of justice and reform. Accordingly, making sense of the Karimova scandal, and how parties are responding to it, especially through assets-forfeiture, has the potential to offer critical insights into some of the core dilemmas confronting the global anti-corruption agenda.

¹ Complaint, *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv-05063 (S.D.N.Y. June. 29, 2015); Complaint, *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016); See also: Freedom House, 'Uzbekistan: Country Profile', *Freedom on the net 2016, 2017*, <https://freedomhouse.org/report/freedom-net/2016/uzbekistan> (accessed 1 February 2017); P. Weiss, '\$1.4 Billion Global Settlement Offer to Telia Portends Major Foreign Bribery Prosecution', *Paul Weiss*, 23 September 2016, <https://www.paulweiss.com/media/3733225/23sep16fcpa.pdf> (accessed 1 February 2017); UNODC, 'Settlements and other alternative mechanisms in transnational bribery cases and their implications for the recovery and return of stolen assets', *Open-ended Intergovernmental Working Group on Asset Recovery*, 25-26th August 2016, para. 36, <https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/workinggroup2/2016-August-25-26/V1604599e.pdf> (accessed 1 February 2017).

1.2 Report Aims

Against the above backdrop, this report is underpinned by a number of core aims. It will:

- Use novel data-analysis tools to systematically document the networks, transaction sequences, and commercial-political repertoires employed by Gulnara Karimova to establish and expand her Uzbek business empire, focusing on its illegitimate dimensions.
- Document the transnational infrastructure used by Karimova to conduct her business activities, evaluating its criminogenic dimensions.
- Examine the relationship between corruption and human rights abuses.
- Employ the modelled data to critically examine the role(s) which state actors have played in facilitating, and confronting Karimova's activities.
- Consider evidence-based methods for identifying victims of grand corruption in Uzbekistan, and complimentary principles of justice that can help guide the return of seized assets.



1.3 Methodology

This report is grounded in the corruption investigative framework (CIF), a qualitative approach that employs bespoke units of analysis, that are twinned with a range of digitally enhanced tools designed to increase rigour.

The elementary units of analysis include nodes, ties, and transactions; the advanced units used in this study include network architecture, transaction sequences, node biographies, and repertoires. As a whole these units of analysis help disclose the illegitimate motivations, opportunity structures and compliance cultures underpinning regionally specific forms of grand corruption.

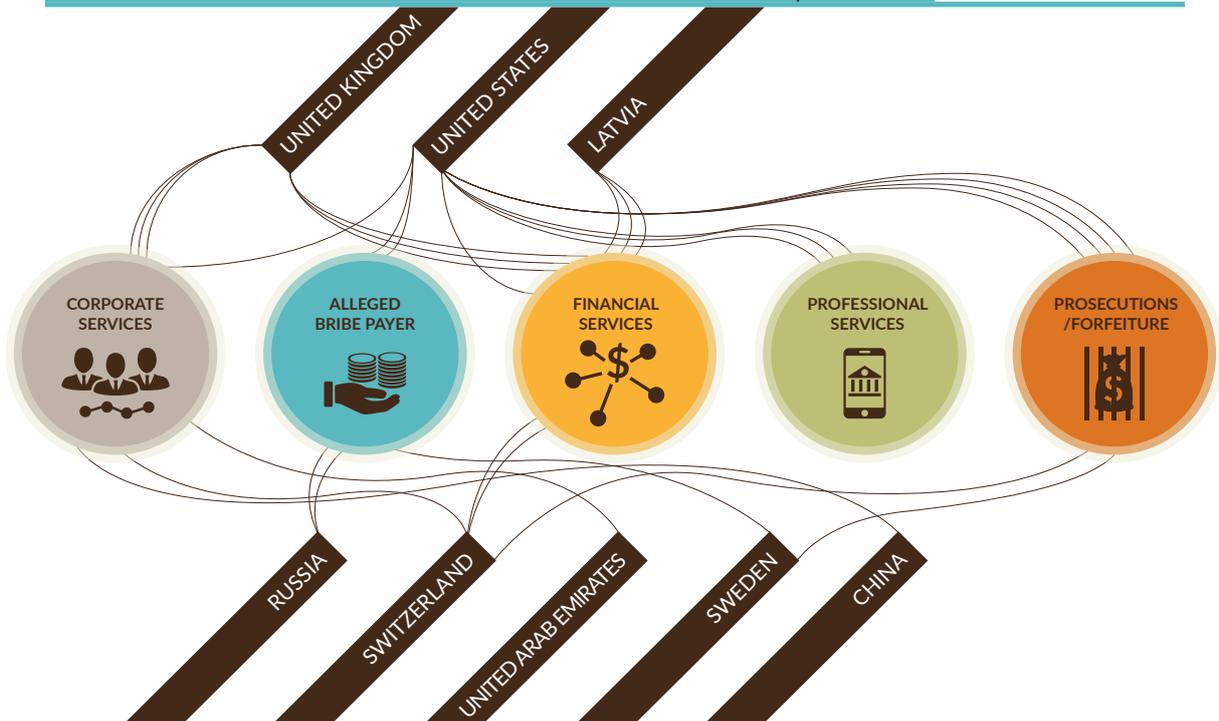
Data on Karimova was collected from a range of sources. First, documentary records were used, including case files (submissions, affidavits and exhibits), judicial decisions, arbitration decisions, deferred prosecution agreements, plea agreements, and audit reports. Corporate registry records relating to key entities implicated in the corrupt schemes were also identified. In addition to the documentary

research, fourteen interviews were conducted with Uzbek state officials, and experienced business elites.

Two core digitally enhanced methods were engineered to analyse the data – investigative social network analysis and transaction mapping. Both approaches use software that allow the elementary units of analysis to be systematised, upon which basis advanced forms of analysis can take place.

In order to investigate the generalisability of the patterns observed in the Karimova case, further case studies were conducted drawing again on court documents, corporate registry records, archives, audits, media accounts, and interviews. A total of eight cases were completed, centring on companies targeted by state-organised rackets.

1 The transnational dimensions of the Karimova syndicate



1.4 Empirical Findings

Using the above methodology, data from documentary and oral sources were modelled and analysed. Once triangulated this evidence indicates:

- 1 Karimova headed a powerful organised crime syndicate that was embedded within the Uzbek state. This network featured an inner core of fixers, managers, envoys and proxies, who were intimately involved in the group's day to day business affairs. In addition, the syndicate also enjoyed ties to a non-core set of high profile fixers and envoys, who prosecuted the group's affairs on a needs basis.
- 2 Syndicate activities were conducted with the assistance and complicity of senior state officials, and enacted through a diverse range of state organs. These organs include cabinet, government committees, ministries, the courts, sector regulators, and the security services. These different state levers enabled the syndicate to expropriate businesses, monopolise markets, solicit bribes, and administer extortion rackets. Such practices were often overt. Key state officials implicated in syndicate activities continue to enjoy high profile positions within the Uzbek government.
- 3 Syndicate activities were predicated on the systematic persecution of particular civilian populations. For instance, successful businesses and executives, along with their family and employees, appear to have been the targets of violent extortion rackets. More generally, the Uzbek national population are persecuted through a regime of state terrorism, that underpins political power, and the illegitimate economies this power is instrumental to. Without a general climate of fear, and paranoia, the illicit tactics essential to the syndicate's activities in Uzbekistan, would have been impossible.
- 4 Given that grand corruption in Uzbekistan is enacted through the persecution of particular groups, and the population as a whole, employing a range of inhumane tactics, collectively these acts constitute gross human rights violations.
- 5 The repertoire of activities prosecuted through the Uzbek state in the Karimova case are not anomalous. They are systemic in character, and essential to the accumulation of wealth and power in Uzbekistan.
- 6 A range of international actors, and jurisdictions have in practice proven essential buttresses of grand corruption in Uzbekistan.² For instance:
 - a. It appears European and North American businesses have been willing parties to protection rackets. Foreign telecommunications providers in particular, were aware of the Karimova syndicate's racketeering activities, and the ultimate beneficiary.
 - b. Overseas banks in the UK, Switzerland and Latvia have been employed as key conduits for syndicate money laundering operations. The group's primary bankers in these regions have a documented criminal history.
 - c. A range of corporate services were offered by the British Overseas Territories. This enabled syndicate activities to be conducted with secrecy and security.
 - d. Foreign regulators in those jurisdictions directly implicated in the syndicate's activities failed to react, despite explicit warnings raised in the media and during civil litigation.

² See for example: Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv-05063 (S.D.N.Y. June. 29, 2015); Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016).

7 The activity examined in this study, and the institutional systems it rests upon, generates three distinctive sets of potentially overlapping victims. Transactional victims who suffer loss or harm, as a direct result of state organised rackets. System victims who suffer loss or harm, as a result of the broader regime of state violence and repression used to enforce rackets. And finally societal victims, who are denied essential opportunities to realise their human capacities, owing to the kleptocratic regime's impacts on education, health, infrastructure, and economic development.

8 The arrest of Karimova and her accomplices by Uzbek authorities was led by officials from the National Security Service (SNB), and appears to have been politically motivated. The SNB systematically uses torture, and other coercive tactics, to secure convictions, in league with a complicit judiciary. Furthermore, given the documented state of the criminal justice system in Uzbekistan, neither Karimova nor her accomplices could have been afforded a fair or transparent trial, on which a secure conviction could be made. The break-up of the syndicate and its asset-base, is more accurately described as an attack by rival power-factions, using the levers of criminal justice as a front to disguise the political nature of these manoeuvres.



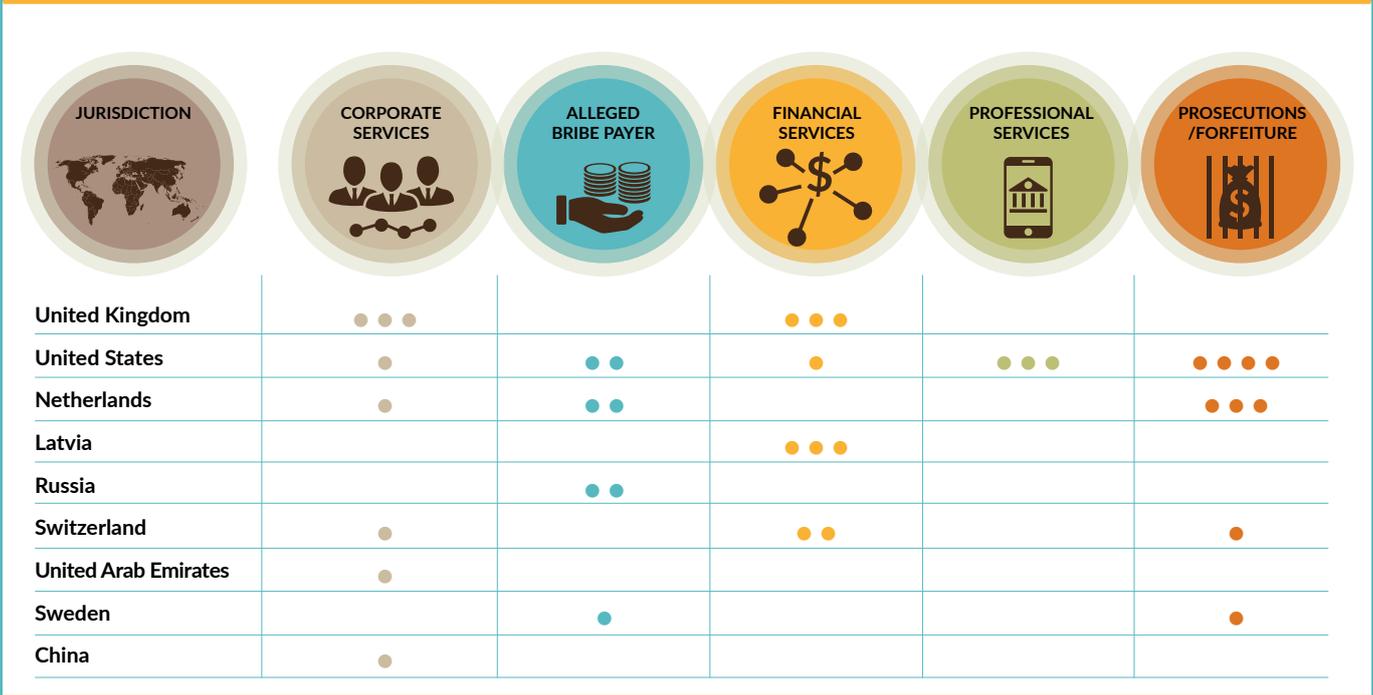
1.5 Key Recommendations

On the basis of these empirical findings, a number of core recommendations can be made for enhancing the administration of justice in the Karimova case. They include:

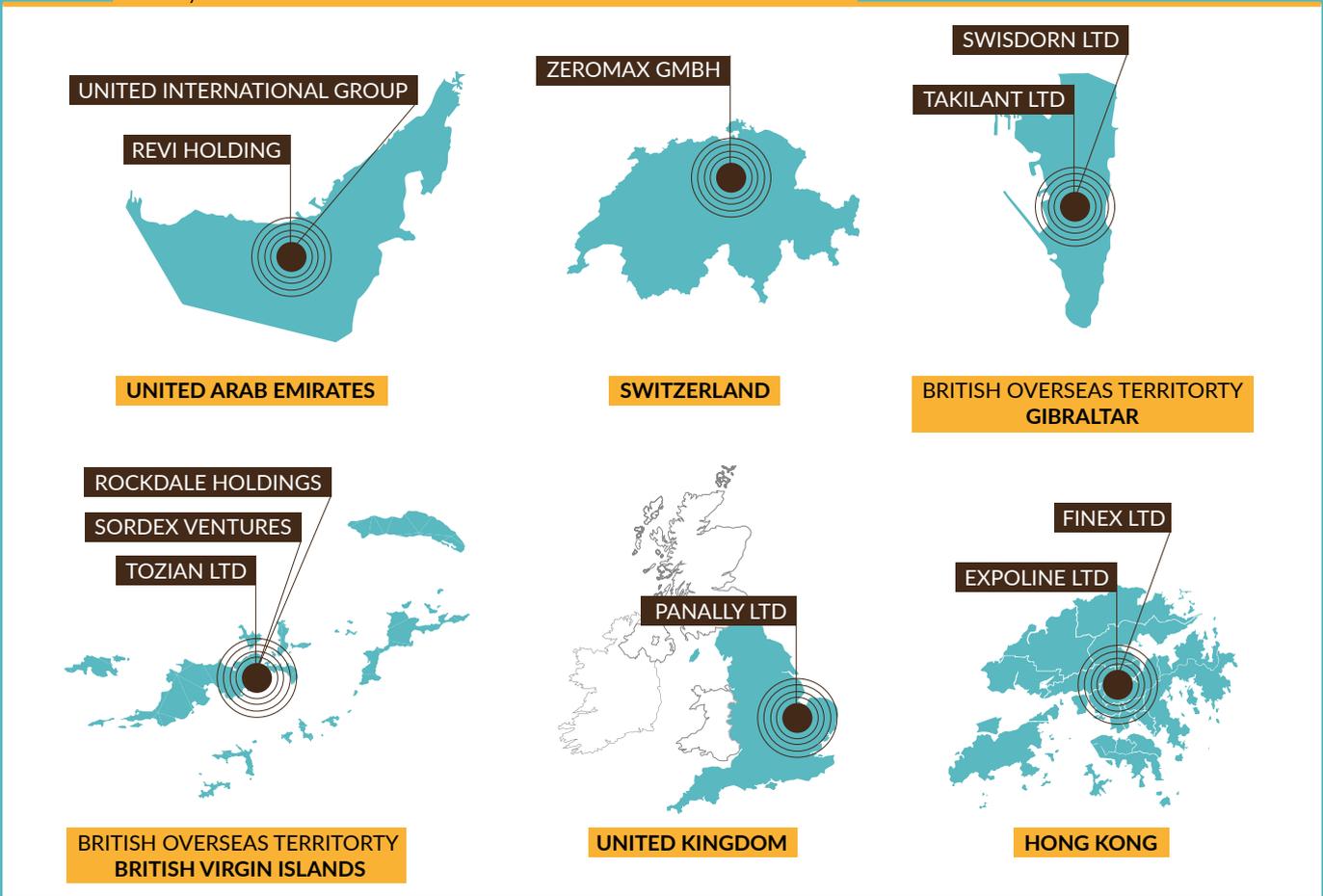
- 1 Caution should be exercised before attempting to deliver justice through a white-collar crime lens, that is focused upon punishing individual deviance, through state-centric processes. Such an approach does not address the systemic nature of the offending; it risks entrenching the marginalised position of victims; and, will generate secondary forms of victimisation if seized assets are returned to the government of Uzbekistan.
- 2 The conduct being confronted through asset forfeiture should be framed as state organised and systemic, rather than individually organised and episodic. Furthermore, this systematic, state organised activity involves the persecution of distinct groups, in addition to a broader cross-section of society victimised through a regime of state surveillance and repression essential to illicit economies in Uzbekistan. Both groups are, accordingly, important stakeholders in the justice making process.
- 3 The political-economic arrangements essential to state-organised crime in Uzbekistan, are wedded to different forms of structural violence, including, for instance, democratic restrictions that preclude the public from meaningfully participating in spaces of political power; labour regimes that violate fundamental worker rights; rackets which prevent private sector actors from enjoying market freedoms essential to growing businesses; and, models of state asset allocation that reduce productivity and deny the public essential services. As a result, reform and justice need to be pursued in a strategic manner, that acknowledges their mutual dependency.
- 4 The principles of transformative justice could usefully inform how stolen assets are returned to victim populations. In short, a transformative approach to asset-forfeiture would require processes oriented towards (a) redress of the diverse social harms suffered by victimised populations, (b) securing non-reoccurrence, and (c) assisting movements and initiatives that can instigate reforms which confront structural violence. To achieve these ends, a transformative approach encourages the engagement of victim groups in the design of enacting mechanisms for asset return, and defining desirable outcomes. This promotes a return process that is bottom-up, victim oriented, context driven and calibrated to important systemic changes.
- 5 It would be beneficial – from a participatory perspective – if the seized assets were transferred into an institutional context, where civil society engagement could take place. This would appear to disqualify – at least in the short term – returning the assets to the Uzbek state, which in its present iteration would be unable to oversee such a democratic conversation, leaving aside the fact its institutions remain unreformed perpetrators of the illegitimate activities documented in this report.
- 6 An alternative approach would be to create a new space where an inclusive, democratic conversation could take place, through the vehicle of an independent trust. Providing it was underpinned by robust oversight mechanisms, a representative board from civil society, and transparent reporting requirements, a trust could create the institutional context where complex policy questions are handled, free from state-centric pressures. It would also generate a safe space where victims can be engaged, in diagnosing the problem, setting desirable outcomes, and designing implementing measures.

1.6 Data Visualisation

2 International complicity in the Karimova syndicate



3 Key offshore entities linked to Gulnara Karimova



4 Banking institutions allegedly employed by Karimova



HSBC

BANK: HSBC
HQ: UK
BRANCH: Jersey

PROSECUTED FOR CRIMINAL ACTIVITY



Standard Chartered

BANK: Standard Chartered
HQ: UK
BRANCH: Hong Kong

PROSECUTED FOR CRIMINAL ACTIVITY



citi

BANK: Citibank
HQ: US
BRANCH: Dubai

PROSECUTED FOR CRIMINAL ACTIVITY



RIETUMU

BANK: Rietumu Banka
HQ: Latvia³



ABL V

BANK: Aizkraukles Banka
HQ: Latvia



PAREX BANKA

BANK: Parex Banka
HQ: Latvia



LOMBARD ODIER

BANK: Lombard Odier
HQ: Switzerland
BRANCH: Geneva

PROSECUTED FOR CRIMINAL ACTIVITY



UBP

BANK: Union Bancaire Privée
HQ: Switzerland
BRANCH: Geneva

PROSECUTED FOR CRIMINAL ACTIVITY

³ A whistleblower from the Latvian banking sector claims that the Prosecutor's Office has turned a blind eye to financial crimes in return for bribes. See: J. Christmas, 'Parex Bank fraud perpetrated by the Latvian Finance Ministry and EBRD against the IMF, EU, and World Bank', Lawless Latvia, 31 March 2011, <http://www.lawlesslatvia.com/wp-content/uploads/2012/03/EBRD-fraud-letter.pdf>.

5 Companies accused in court of paying bribes to Gulnara Karimova



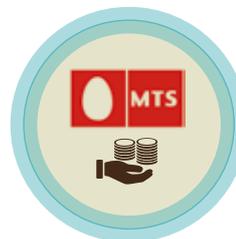
ASSOCIATED COUNTRY: UNITED STATES
ATTEMPT TO PROSECUTE OR FORFEIT ASSETS: NO
JURISDICTIONS INVOLVED: N/A



ASSOCIATED COUNTRY: UNITED STATES
ATTEMPT TO PROSECUTE OR FORFEIT ASSETS: NO
JURISDICTIONS INVOLVED: N/A



ASSOCIATED COUNTRIES: RUSSIA, NORWAY AND THE NETHERLANDS
ATTEMPT TO PROSECUTE OR FORFEIT ASSETS: YES
JURISDICTIONS INVOLVED: UNITED STATES, NETHERLANDS, SWITZERLAND, NORWAY



ASSOCIATED COUNTRY: RUSSIA
ATTEMPT TO PROSECUTE OR FORFEIT ASSETS: YES
JURISDICTIONS INVOLVED: UNITED STATES, SWITZERLAND

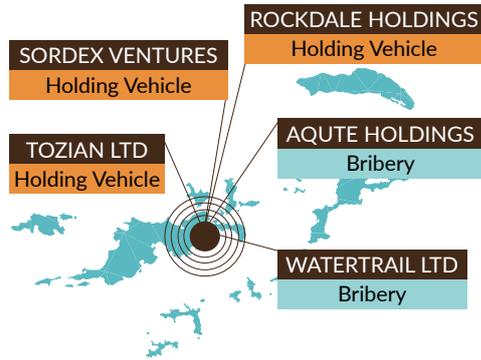


ASSOCIATED COUNTRY: SWEDEN, NETHERLANDS
ATTEMPT TO PROSECUTE OR FORFEIT ASSETS: YES
JURISDICTIONS INVOLVED: UNITED STATES, SWEDEN, SWITZERLAND

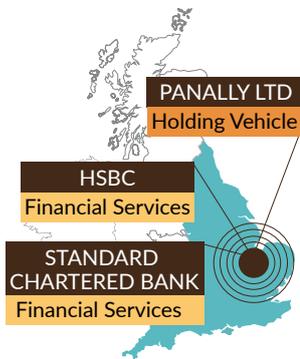
6 UK complicity in Karimova syndicate



GIBRALTAR



BRITISH VIRGIN ISLANDS



UNITED KINGDOM



CAYMAN ISLANDS

7 Uzbek state agencies alleged to have acted on the instructions of Karimova



8 Selected list of Karimova's alleged associates



Bekhzod Akhmedov

Nationality: Uzbek
 Notable roles: Director-General, Uzdunrobita
 Alleged link: Envoy, fixer, manager, advise.



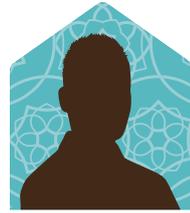
Gayane Avakyan

Nationality: Armenian
 Notable roles: Director, House of Style
 Alleged link: Proxy, manager.



Irina Avtaikina

Nationality: Uzbek
 Notable roles: –
 Alleged link: Proxy.



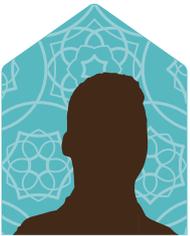
Brian Bowen

Nationality: US
 Notable roles: Founder, Uzdunrobita
 Alleged link: Adviser, envoy.



Miradil Djalalov

Nationality: Uzbek
 Notable roles: Owner, CEO, Zeromax
 Alleged link: Manager, proxy.



Aliyer Ergashev

Nationality: Uzbek
 Notable roles: Executive, Coca-Cola Bottlers of Uzbekistan
 Alleged link: Manager.



Harry Eustace, Snr

Nationality: US
 Notable roles: Adviser, Zeromax GmbH; Director, American Uzbekistan, Chamber of Commerce; Co- Owner, FMN Logistics.
 Alleged link: Adviser.



Farhod Inogambaev ⁴

Nationality: Uzbek
 Notable roles: –
 Alleged link: Adviser, manager, fixer, envoy.



Rustam Madumarov

Nationality: Uzbek
 Notable roles: Singer, DADO
 Alleged link: Proxy, manager.



Sharuh Sabirov

Nationality: Uzbek
 Notable roles: Executive, Coca-Cola Bottlers of Uzbekistan
 Alleged link: Manager.



Sodiq Safoyev

Nationality: Uzbek
 Notable roles: Deputy Foreign Minister, Chair of the Foreign Relations Committee
 Alleged link: Envoy, fixer.



Alisher Sayfuddinov

Nationality: Uzbek
 Notable roles: Deputy Chief, Presidential Security Service
 Alleged link: Envoy, fixer.

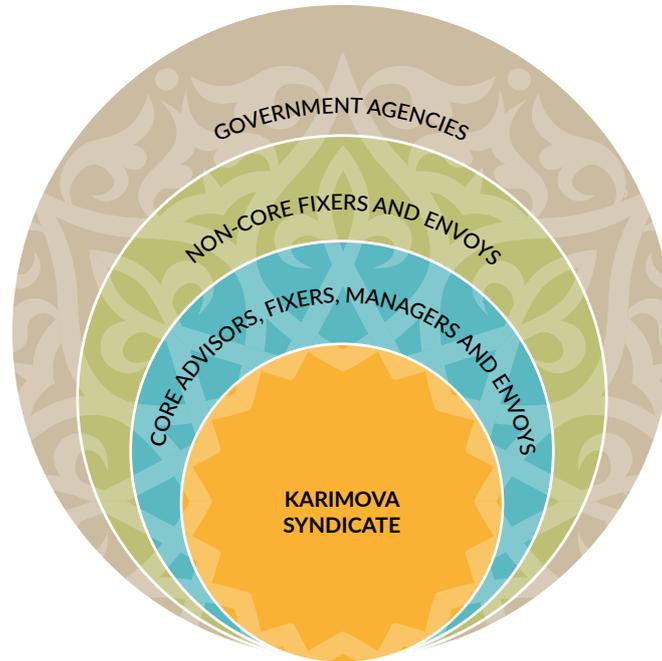


Mirabror Usmanov

Nationality: Uzbek
 Notable roles: Minister of Trade, Deputy Prime Minister
 Alleged link: Adviser.

⁴ It is claimed by Farhod Inogambaev, he assisted the Karimova syndicate after his brother was held hostage by the Presidential Security Service and Karimova's Chief of Security, and threats were made to his family.

9 Karimova syndicate structure



‘Moscow-based Mobile TeleSystems on Friday agreed to pay as much as \$159 million for a cellphone company owned by the controversial daughter of authoritarian Uzbek President Islam Karimov or roughly 33 times what the company valued itself at just two years ago’

Simon Ostrovsky, *The Moscow Times*, 19 July 2004



2. Overview and Methodology

2.1 Introduction

Over the past decade grand corruption,⁵ and kleptocratic regimes,⁶ have emerged as global challenges that must be tackled with urgency, vigour and collective resolve by the international community. A growing movement against grand corruption in all its forms – which includes civil society, governments, international institutions, businesses, and the broader public – articulates a widespread outrage against criminal forms of wealth accumulation, that transcends class, ethnic and geopolitical boundaries.

This rare point of synthesis between such a wide nexus of stakeholders, reflects the deep and damaging impact grand corruption has on security, human rights, democracy and markets. Yet even as global literacy on the dangers posed by grand corruption improves, it is still very often framed as a financial or economic crime. This often conceals the intricate relationship between grand corruption and mass human rights violations. As a form of state organised crime, grand corruption is frequently coupled to targeted forms of violence and broader regimes of terror, marked by torture, disappearances, and persecution, all of which is designed to enforce illicit economies, and uphold the impunity of offenders. Moreover, the direct impact of grand corruption on democratic freedoms, public administration and service delivery, further violates the right of victim populations to health, housing, security and education. It is for these reasons, that a persuasive argument is emerging that grand corruption deserves to be regarded as one of the most egregious human rights challenges facing the global community.⁷

Indeed, as the following report will evidence, when forensic qualitative methodologies are used to

investigate grand corruption in its concrete forms, we witness systematic and widespread attacks on distinct groups, using a range of inhumane methods. The emerging consensus that grand corruption constitutes an international crime of the most serious kind, places a burden on the international community to act decisively, in order to protect persecuted communities, remedy harm suffered by victims, and engage in initiatives that ensure non-reoccurrence.

Confronting grand corruption in a direct and urgent manner, however, does not require incursions that will necessarily threaten the sovereignty of offender states. Evidence strongly indicates that grand corruption is inherently transnational in character.⁸ It thrives on a permissive international framework of shell companies, banks, asset warehouses, and professional/corporate collaborators, which allow the looted funds to be extracted, laundered, anonymised and invested in offshore locations. Given that the apparatus used to execute grand corruption is transnational in character, it can often therefore be confronted through international cooperation targeted against its offshore spokes.

⁵ The Global Organization of Parliamentarians Against Corruption (2013: 3) observes: 'Grand corruption takes place at high levels of the political system, when "politicians and state agents entitled to make and enforce the laws in the name of the people, are misusing this authority to sustain their power, status and wealth." Essentially, grand corruption not only breaks national laws, but more seriously still, it distorts and undermines the rule of law itself. Grand corruption is systemic, becoming an integrated and essential aspect of the very economic, social, and political systems that should combat it.'

⁶ Menkaus and Prendergast (2016) define kleptocracy as a 'a system of state capture in which ruling networks and commercial partners hijack governing institutions for the purpose of resource extraction and for the security of the regime'. Accordingly, kleptocracies are regimes marked by such a high degree of grand corruption that there is virtually no governmental space for accountability or reform.

⁷ See for example: G. Zasada, 'Uzbekistan: The major source of instability in Central Asia?', *Centre for Eastern Studies (OSW)*, 2004, https://www.osw.waw.pl/sites/default/files/prace_15_3.pdf (accessed 13 February 2017); Office of the United Nations High Commissioner for Human Rights, 'The Human Rights Case Against Corruption', *OHCHR*, November 2013, www.ohchr.org/Documents/Issues/Development/GoodGovernance/Corruption/HRCASEAGAINSTCORRUPTION.pdf (accessed 13 February 2017); T. Soreide, 'Driver of Corruption: A Brief Review', *World Bank Group*, 2014, <http://elibrary.worldbank.org/doi/abs/10.1596/978-1-4648-0401-4> (accessed 13 February 2017).

⁸ A. Cooley and J.C. Sharman, 'Blurring the line between licit and illicit: transnational corruption networks in Central Asia and beyond', *Central Asian Survey*, vol. 34 no. 2, 2015, pp. 11-28.

10 The 10 worst secrecy havens in the Tax Justice Network's Financial Secrecy Index 2015

RANK	JURISDICTION	FSI VALUE	SECRECY SCORE	GLOBAL SCALE WEIGHT
1	Switzerland	1.466,1	73	5,625
2	Hong Kong	1.259,4	72	3,842
3	USA	1.254,8	60	19,603
4	Singapore	1.147,1	69	4,280
5	Cayman Islands (British Overseas Territory)	1.013,2	65	4,857
6	Luxembourg	817,0	55	11,630
7	Lebanon	760,2	79	0,377
8	Germany	701,9	56	6,026
9	Bahrain	471,4	74	0,164
10	United Arab Emirates (Dubai)	440,8	77	0,085

11 The bottom 10 performers in Transparency International's Corruption Perceptions Index 2015

RANK	COUNTRY	2015 SCORE
158	Guinea-Bissau	17
158	Venezuela	17
161	Iraq	16
161	Libya	16
163	Angola	15
163	South Sudan	15
165	Sudan	12
166	Afghanistan	11
167	Korea (North)	8
167	Somalia	8

Arguably one of the most predatory kleptocracies in operation today, which represents a litmus test of the international resolve to confront grand corruption, is the government of Uzbekistan. Over the past twenty years a body of evidence has emerged, which strongly suggests organised crime rackets are systematically employing state levers, with the active participation of senior government officials and politicians.⁹ The range of predatory economic activities prosecuted through the Uzbek state apparatus, are myriad, and include:

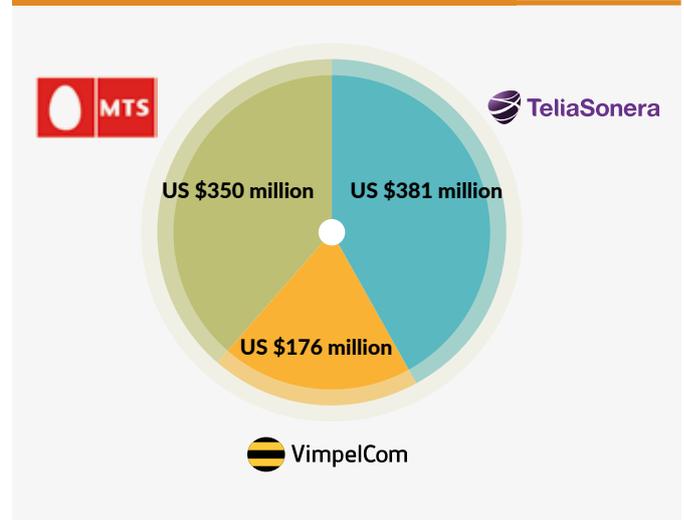
- Protection rackets
- Bribery
- Extortion rackets
- Kidnap and ransom
- Misappropriation
- Asset expropriation
- Forced labour
- Black markets
- Drug trafficking

In July 2012, Swiss authorities initiated one of the first foreign prosecution efforts directed against those involved in facilitating state-organised crime in Uzbekistan, which included two officials from the joint-venture, Coca-Cola Bottlers of Uzbekistan.¹⁰ An exposé broadcast by Swedish public television

in September 2012,¹¹ led to a further wave of prosecutions against telecommunication multinationals implicated in the bribery of Uzbek officials, including Swedish firm TeliaSonera, and the Dutch based company, Vimpelcom.

These scandals centred on Gulnara Karimova, the eldest daughter of long-standing Uzbek President, Islam Karimov, who officially passed away on 2 September 2016. It is alleged that in the telecommunications sector alone she was the ultimate beneficiary of at least \$850 million in illicit payments.¹²

12 Alleged illicit payments made to Karimova front companies



⁹ See for example: D.G. Lewis, 'Tackling Corruption in Uzbekistan: A White Paper', *Open Society Foundations*, June 2016, <https://www.opensocietyfoundations.org/sites/default/files/tackling-corruption-uzbekistan-20160524.pdf> (accessed 17 February 2017).

¹⁰ J. Lillis, 'Uzbekistan: Swiss Confirm Laundering Probe After Reports of Googoosha Protest', *EurasiaNet*, 6 September 2012, <http://www.eurasianet.org/node/65873> (accessed 27 November 2016).

¹¹ S. Bergman, 'TeliaSonera in million-dollar deal with dictatorship', *SVT*, 19 September 2012, <http://www.svt.se/ug/TeliaSonera-i-miljardaffar-med-diktatur> (accessed 27 November 2016).

¹² U.S. Department of Justice, 'VimpelCom Limited and Unitel LLC Enter into Global Foreign Bribery Resolution of More Than \$795 Million; United States Seeks \$850 Million Forfeiture in Corrupt Proceeds of Bribery Scheme', *Office of Public Affairs (News)*, <https://www.justice.gov/opa/pr/vimpelcom-limited-and-unitel-llc-enter-global-foreign-bribery-resolution-more-795-million> (accessed 27 November 2016).

It would be strategically dangerous, and factually incorrect, however, to view this as an example of individual deviance. Systematic analysis of the data presented in court, and to the media, coupled with insider interviews, reveals a more complex phenomenon implicating all three branches of the Uzbek state, and a corporate and financial edifice rooted in Europe and North America. Indeed, evidence analysed for this report suggests:

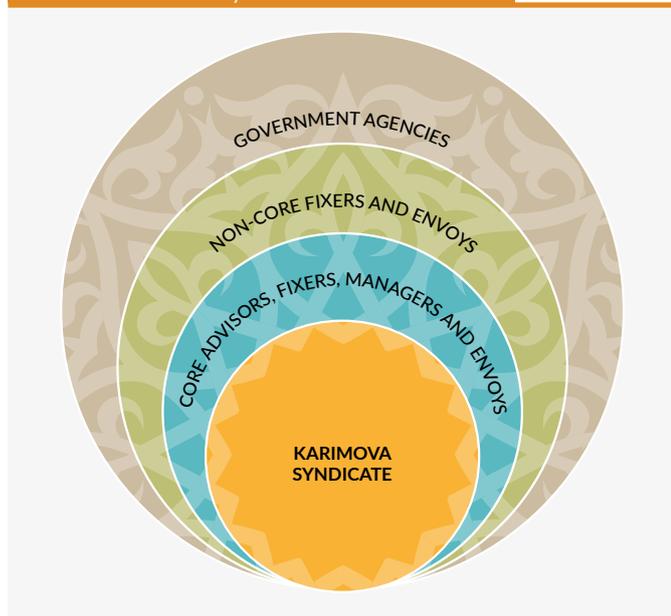
- 1 Karimova headed a powerful syndicate that was embedded within the Uzbek state.
- 2 Illicit activities authored by the syndicate were conducted with the assistance and complicity of senior state officials, and enacted through a diverse range of state organs. These organs include cabinet, government committees, ministries, the courts, sector regulators, and the security services.
- 3 The repertoire of activities prosecuted through the Uzbek state in the Karimova case are not anomalous. They are systematic and systemic in character, and essential to the accumulation of wealth and power in Uzbekistan.
- 4 A range of international actors, and jurisdictions, are essential to the practice of state-organised crime in Uzbekistan. In particular, it appears European and North American businesses have been willing parties to protection rackets, while banks in the same regions have been employed as key conduits for money laundering operations.¹³ To ensure secrecy and security, the British Overseas Territories have solicited a range of corporate services to syndicate members.

- 5 The illicit activity, and the institutional systems it rests upon, generates three distinctive sets of potentially overlapping victims. Transactional victims who suffer loss or harm, as a direct result of state organised rackets. System victims who suffer loss or harm, as a result of the broader regime of state violence and repression used to enforce rackets. And finally societal victims, who are denied essential opportunities to realise their human capacities, owing to the kleptocratic regime's impact on education, health, infrastructure, and economic development.

It is important to note that the category 'syndicate' is purposely employed in this report. The empirical case studies detailed below contain evidence which indicates that Karimova's operations, were grounded in an organised network, that she presided over. The data suggests that this network featured an inner core of fixers, managers, envoys and proxies, who were intimately involved in the group's day to day business affairs. In addition, the syndicate also enjoyed ties to a non-core set of high profile fixers and envoys, who prosecuted the group's affairs on a needs basis. Through this core and non-core set of actors, the executive, judiciary and security apparatus were used to prosecute syndicate business.

¹³ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv-05063 (S.D.N.Y. June. 29, 2015); and Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016).

13 Karimova syndicate structure



The first aim of this report is to set out the evidence upon which the above five core claims are grounded, drawing on pioneering data-analysis techniques. This objective will be achieved by conducting a critical biography of the Gulnara Karimova syndicate focusing on the period between 2001 and 2012. Using four case studies, we will examine how syndicate activities were organised through state machinery, and the precise deleterious impacts they had on different persecuted populations. However, when producing this portrait, data will be cross referenced with information acquired from interviews and documentary research, which point to the systematic quality of the activities under examination, which stretch far beyond the Karimov family.

The second aim of this report is to consider the ramifications of these five core claims, for the methods and mechanisms with which the international community confronts this activity. Given that there is an international effort currently underway to seize and return assets associated with Karimova's activities, it is an opportune occasion to reflect on the principles and processes that can most effectively deliver justice.

It will be argued that an approach must be employed which recognises that these assets emerged from activities which are systemic, state-driven, and rooted in a structure that denies Uzbek people their capacity to fully participate in political, economic

14 Four core case studies used to document syndicate activities



and social life. Justice oriented responses must, therefore, be driven by enacting mechanisms that incorporate victimised populations – however, difficult this may practically be – in ways which enable this stakeholder group to decide how assets are applied to address the questions of restitution and non-reoccurrence.

To that end, it will be suggested that important lessons can be drawn from transitional justice initiatives set up to confront and reform regimes of violence, and the critiques they have engendered. These critiques raise serious concerns over state-centric models of justice, that are led by technocratic specialists, which instrumentalise victim agency through set forums, where they assume prescribed roles. Crucially, it is claimed, transitional models often fail to bring about durable solutions that allow victimised and marginalised sectors of the population to meaningfully participate in political, economic and cultural life.

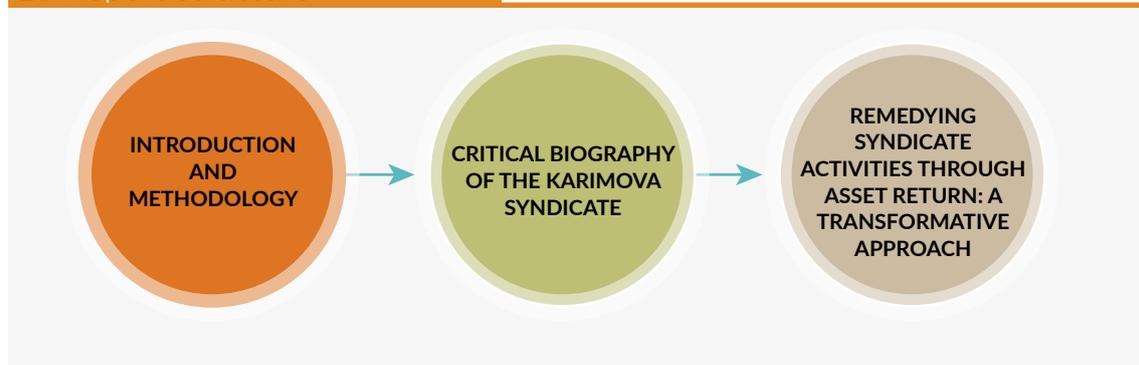
In response, a new paradigm of transformative justice has emerged. This paradigm recognises that there is an intimate relationship between direct forms of violence, such as persecution and state terror, and broader, structural forms of violence rooted in closed political spaces, economic exploitation and social exclusion. The latter phenomena are deliberately framed as structural violence, owing to the significant impacts these

processes have on the capacity of individuals to realise their capacities, and enjoy a full range of civil, political and socio-economic rights. As a result, transformative justice promotes holistic responses which address both direct and structural forms of violence, through a process oriented paradigm where victimised populations are central drivers, both in defining outcomes and constructing mechanisms for achieving these outcomes.

In the final section of this report, therefore, a transformative justice lens will be employed to develop an approach for asset forfeiture in the Uzbek case that builds on lessons drawn from the field of transitional justice. To that end, it will be argued:

- 1 Delivering justice through a white-collar crime lens that focuses efforts on punishing individual deviance, through state-centric models, will not address the causes underpinning the individual offending event. Furthermore, it risks entrenching the marginalised position of victims, and will in the Uzbek case generate secondary forms of victimisation if seized assets are returned to the state.
- 2 The conduct being confronted through asset forfeiture should instead be framed as state organised and systemic, rather than individually organised and episodic. Furthermore, this systematic, state organised activity involves the persecution of distinct groups, in addition to a broader cross-section of society victimised through a regime of state surveillance and repression essential to illicit economies in Uzbekistan. Both groups are, accordingly, important stakeholders in the justice making process.
- 3 The political-economic arrangements essential to state-organised crime in Uzbekistan, are wedded to different forms of structural violence, including, for instance, democratic restrictions that preclude the public from meaningfully participating in spaces of political power; labour regimes that violate fundamental worker rights; rackets which prevent private sector actors from enjoying market freedoms essential to growing businesses; and, models of state asset allocation that reduce productivity and deny the public essential services. As a result, reform and justice needs to be pursued in a strategic manner, in a way that acknowledges their mutual dependency.
- 4 The principles of transformative justice could usefully inform how stolen assets are returned to victim populations. In short, a transformative approach to asset-forfeiture would require processes oriented towards (a) redress of the diverse social harms suffered by victimised populations, (b) securing non-reoccurrence, and (c) assisting movements and initiatives that can instigate reforms which confront structural violence. To achieve these ends, a transformative approach encourages the engagement of victim groups both in the design of enacting mechanisms for asset return, and defining desirable outcomes. This approach promotes a return process that is bottom-up, victim oriented, context driven and calibrated to important systemic changes.

15 Report structure



2.2 The corruption investigative framework: A toolkit for grand corruption inquiry

If initiatives are to be designed that are capable of confronting grand corruption in its concrete, regionally specific forms, there is a need to access reliable data on the particular schemas, and networks, through which it is enacted. Yet, in practice, this is difficult to do. Although grand corruption, by definition, involves significant sums of wealth, the illicit activity itself is hidden by an edifice of secrecy, sham-fronts, and obfuscation, deliberately set up by the responsible actors. This presents researchers, civil society and policy makers, with a methodological dilemma.

To date, the scholarly and practitioner literature has tended to focus on the methodological and analytical challenges associated with measuring corruption, and gauging its impact. Less emphasis has been placed on building qualitative methods that can document, in intricate detail, the social systems and processes that are responsible for these varying levels in corrupt activity.

This report is grounded in the corruption investigative framework (CIF), an approach to corruption research which has been developed by Lasslett to help address the lacuna. In order to build and enrich data-sets on grand corruption, CIF employs bespoke units of analysis, which are twinned with a range of digital tools designed to increase rigour. These units of analysis have been inductively generated – in conversation with existing scholarly traditions – through over a decade of investigative inquiry into complex forms of corrupt activity. They represent, therefore, an empirically grounded attempt to distinguish, and methodically prioritise, certain social determinations that have proven to be among the most essential for building comprehensive understandings of grand corruption in its specific regional forms.

The units of analysis underpinning CIF may be differentiated into elementary and advanced components. The elementary units include nodes, ties, and transactions. They are among the most

basic constituting components of corrupt schemes. The advanced units of analysis are the broader wholes which these elementary units form part of.¹⁴

They include, network architecture, transaction sequences, node biographies, and repertoires, which as a whole help to disclose the criminogenic motivations, opportunity structures and compliance cultures underpinning grand corruption. This is not an exclusive list, there is scope for refinement and flexibility. Nevertheless, establishing coherent units of analysis for inquiry, that are replicable, is essential for building national and international data-sets that are comparable, both on a geopolitical and longitudinal basis. Comparability in this respect is essential for building generalisable theories, teasing out regional nuances, and for appreciating change over time.

If we turn first to the basic units of analysis, nodes designate the differentiated material elements of a social system underpinning grand corruption. This includes, for instance, individual actors, public institutions, corporate entities, valuable assets, and forums (such as, a conference, court case, or social club). Clearly, if we are to empirically document grand corruption in its concrete, historical forms, key nodal points, such as fixers, front companies, political powerbrokers, targeted assets, important decision making forums, and civil society actors mounting resistance, must be plotted. It is also vital that the ties linking nodes are traced. Tie types will

¹⁴ This distinction between elementary and advanced units of analysis is epistemological, rather than ontological. It recognises that while inorganic, organic, and social matter only exists through integrated systems, where elements obtain their concrete, historical characteristics from their position within these totalities – nevertheless, if the human mind is to comprehend such systems it must begin with elementary processes, before attempting to comprehend the more complex whole. As the latter appreciation forms, it also enriches understandings of the basic units, as we begin to comprehend their position within the broader totality.

vary depending on the nodes concerned, and the particular relation(s) shared. They might include: ownership, partnership, kinship, client, employment, or rivalry, to name just a few examples. The more entrenched the research becomes, the greater the number of ways ties might be coded to reflect the finer nuance of relationships.

Of course for a social system to exist, it must have active components that are driving momentum – otherwise the system falls into stasis. The transaction is a basic category designed to designate any single, identifiable action, which takes place within a social system. It might include, for example, the transfer of money between offshore bank accounts, or a government committee's decision to grant a particular firm valuable economic rights. Transactions generate ties, and see resources circulate through the network, forming the pulse of social systems and the historical sequences they give rise to.

Given the size and complexity of the potential datasets being dealt with here at an elementary level, systematic tools are required which can help to extract, collate, and process the data. Two primary methodological vehicles have been developed to help in this respect. The first is a digitally enhanced method, investigative social network analysis (ISNA). ISNA is designed to enhance the rigour of data collection, and analysis, with specific respect to nodes and ties. This tool is complimented by transaction mapping, another digitally enhanced approach that systematises transaction data so that it can be interrogated to improve understandings of the broader sequences underpinning the illicit activity being scrutinised.

To date, ISNA has been conducted using the community version of Maltego Casefile. Casefile allows node and tie data to be coded and mapped on digraphs (directional graphs), so that it can then be evaluated drawing on concepts developed within the social network analysis literature, which help to disclose network power dynamics, weaknesses and vulnerabilities. In contrast to orthodox forms of social network analysis, however, ISNA does not rely on a uniform data-collection process. Indeed,

grand corruption does not lend itself to a controlled field environment, where standardised surveys can be conducted. Rather, as a phenomenon it tends to be uncovered incrementally, through painstaking investigation, that yields results in an uneven and unpredictable fashion.

In recognition of these challenges, ISNA embeds data-analytics in the fieldwork process to enhance the data yield. To that end, node and tie data can be plotted real-time while in the field using Maltego Casefile, thus allowing emerging network models to inform future iterations of the investigative process, armed with leads and hypotheses inspired by the digraph. Gradually, over the course of the investigation a large number of nodes and ties are inputted. Thus, once fieldwork concludes a significant digital asset exists which can then be subjected to further analysis using data-visualisation techniques, and social network analysis algorithms, to detect nuances in the network architecture.

Transaction mapping compliments ISNA, both as an in-field diagnostic tool, and a post-fieldwork analytical vehicle. In the Uzbek case, Tiki-Toki has been used. This timeline software package allows transaction data to be plotted on a graph, and coded on two bases, author and date. There is also capacity within the programme to embed in plotted data detailed event information so sequences can be reconstructed. Like with Maltego Casefile, data can be plotted real-time in the field, enabling researchers to develop working hypotheses on transaction sequences, which can be explored through further inquiry. Once the data has been fully plotted on a timeline it can then be analysed using a series of analytical concepts, designed to help researchers connect transactions into broader sequences, and draw certain evidence based meanings from them.

In practice, the data collected through fieldwork is coded in three steps that tend to be taken simultaneously. First, it is thematically coded using NVivo, or alternatively Excel. This creates a master database where all the processed data is stored. Then it is coded and embedded in a social network digraph, and transaction timeline, which constitute the second and third iterations of the coding

process. Collectively this creates a three dimensional model of the infrastructure and processes through which grand corruption is concretely organised. It is upon this foundation that the data can be harnessed in order to think about the advanced units of analysis.

The advanced units of analysis CIF employs have emerged inductively over a ten year period, whilst researching grand corruption in the Pacific and Eurasia. They evolved out of finer grained analyses conducted using the elementary units of analysis, which laid the foundation for building concepts capable of capturing the broader wholes these molecular processes are part of.

The first advanced category, network architecture, focuses on the social network as an evolving totality, looking at the structured inter-relativeness between its constituting elements, and the concrete meanings these elements obtain as a result of the system they are part of. For example, politician A may act as a bridge between investors B, C and D, and the President. By acting as a conduit between the investors and a paramount decision maker, politician A is able to fix public tenders using the President's office; while, the President enjoys insulation from the immediate zone of illicit activity, minimising the risk of exposure. From the President's vantage point, Politician A is a buffer, from the vantage point of the investors, he is a fixer – for both sides Politician A is an asset. On the other hand, because Politician A has inside knowledge from their covert role, they represent a potential threat to the President, who fears exposure; while investor B, C and D's dependency on Politician A as a fixer, means that if the latter is ousted by the President, they could face expropriation and loss of their assets. So when we talk of network architecture, it is a frame that instigates a strategic focus on the dynamics that emerge from forms of inter-relatedness, that can only be concretely uncovered by looking at the broader totality.

The transaction sequence is another advanced unit of analysis. It hones attention on an expanse of inter-connected transactions, authored by a single or multiple entities. In effect this frame focuses the investigative lens on the different ways in which transactions may connect together to form part of a sequence that drives a corrupt schema from conception to fruition. For example, an overarching sequence may involve marshalling security force members to intimidate rivals, journalists, and civil society, which occurs in tandem with the rigging

of a government committee, so an oil contract is awarded to an offshore company, owned by members of the intelligence services, who provide kickbacks to the President. Meanwhile, lawyers, bankers and accountants are contracted to launder the proceeds into safe havens in Europe and North America. Here we see a series of inter-connected transaction chains, authored by multiple entities, whose concrete significance can only be fully appreciated by tracing the connections between these different threads. So, in effect, the transaction sequence involves forensically piecing together transactional data so we begin to see the broader sequences they are part of, which gives new meaning to the data collected. Elsewhere I have set out in greater detail precise techniques that can be used to reconstruct sequences (see Lasslett Forthcoming).

Entity biography, is another advanced unit of analysis. It hones attention on particular nodes within a network, looking at their characteristics through a life-history lens. Whether it be an individual, company or public institution, it is possible in some instances to capture how they have developed over time, including expansions in resources and influence, the honing of particular skill-sets, the acquisition of certain assets, the fostering of concrete cultures and customs, etc. For instance, put crudely, it may be that a certain corporate clique have a biography, extending back two decades, which is marked by the systematic use of bribery, price gouging, market rigging, and extortion. Pulling together this biography, alerts attention to behaviour and practices that have been refined and ratified through reward and impunity, which forms an important part of the motivation and opportunity structure, for the current scheme under examination. Similarly, it may be found after constructing a historical portrait of, for instance, the Lands Department, that a series of fraudulent techniques have been systematically used to forge titles, manipulate tax/rental rates, and solicit bribes, with upper management playing a key role, in league with politicians and senior business figures. All of which signals the emergence of a historically generated edifice designed to buttress the interests of a speculative class who have commandeered key sites of power within the state and business to administer a black economy in land. Entity biographies, in effect, offer a frame through which to understand how existing structures, processes and mechanisms articulate a longer process of manipulation and graft, that has now coagulated into criminogenic infrastructure.

Where multiple case-studies have been produced on certain corrupt schemas in a particular region, a comparative lens can be employed to detect patterned conduct that may constitute a repertoire. Repertoire here designates routine behaviour that has emerged within a particular social environment and become an established methodology for achieving a particular objective, in our case engineering illicit transactions. For example, when scrutinising multiple cases of bribery it may become apparent that foreign investors negotiate with fixers, using offshore corporate accounts to anonymously make illicit payments to senior politicians, protected by a buffer of proxies. Or, it might be observed that successful businesses within a jurisdiction, after approximately five years of operation begin experiencing a series of escalating extortive demands administered by government agencies, until finally they are violently expropriated by security forces. In both cases, it could be surmised that there is evidence of an established repertoire. The hypothesis' validity will increase with the number of supporting case studies. Critically though, repertoire as an advanced unit of analysis, hones attention on the way, even illicit practices, are enacted through standardised work processes, and forms of professional knowledge, which circulate and become a generalised methodology for graft.

As a whole then, CIF functions in the first instance by employing elementary units of analysis as a compliment to fieldwork and a building block for undertaking advanced forms of analysis, employing the frames cited above. Both steps are enacted through thematic analysis, ISNA and transaction mapping, aided by a number of software packages.

However, if CIF is to render meaningful results, it requires a reliable supply of data from the field. To research the Karimova case, data was collected from a range of sources. First, documentary materials were located, including case files (submissions, affidavits and exhibits), judicial decisions, arbitration decisions, deferred prosecution agreements, plea agreements and audit reports. These materials emerged from five civil suits,¹⁵ three criminal prosecutions,¹⁶ two international arbitration proceedings and an audit conducted for TeliaSonera.¹⁷ Corporate registry records relating to key companies implicated in the transaction sequences were also collated, many of which were initially sourced from the Organized Crime and Corruption Reporting Project. Documents emerging from the prosecution of banks linked with Karimova, initiated by the US Department of Justice, New York State Department of Financial Services, and the UK Financial Conduct Authority were employed, complimented by related audits and consultancy reports, including most notably the Mannheimer Swartling¹⁸ and Brown Rudnick¹⁹ investigations into foreign bribery, and Latvian money- laundering, respectively. A survey of the media reporting was conducted using Nexis.

In addition to the documentary research, fourteen insider interviews were conducted with Uzbek state officials, and experienced business elites. In a closed society, accessing insider sources is a challenging task, which requires locating the right gatekeepers, and ensuring the contact is kept discrete. Given the risks participants' faced, their evidence was given anonymously and will only be cited generally to ensure no information is disclosed which could

¹⁵ This includes two civil forfeiture actions against assets linked to Karimova initiated by the US Department of Justice, two civil suits taken out by Karimova's former husband, and a civil action launched by Interspan Distribution Corporation against their insurer.

¹⁶ This includes, US Department of Justice prosecutions against Vimpelcom and Unitel, and the Dutch prosecution of Takilant Limited.

¹⁷ Arbitration proceedings were launched by Roz Trading, and Oxus Gold.

¹⁸ Mannheimer Swartling, 'Rapport till styrelsen i TeliaSonera AB: Har TeliaSoneras investering i en 3G-licens tillsammans med frekvenser och nummerserier i Uzbekistan år 2007 och därefter inneburit att företrädare för TeliaSonera gjort sig skyldig till korruptionsbrott eller penningtvätt?', *OCCRP*, https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Telecoms_18.pdf (accessed 30 November 2016).

¹⁹ Brown Rudnick, 'Hermitage Capital Management Limited/Notice of Suspected Money Laundering and Request for criminal investigation in respect of the violations of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance Request for criminal investigation and for issuance of asset freeze order for violation of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance', *Brown Rudnick*, 30 July 2012.

reveal their identity. This accords with the research protocol and risk-assessment approved by the Ulster University ethics committee.

These interviews with insider sources have been complimented by conversations with the Uzbek exiles, international civil society organisations, Central Asia researchers and diplomats with Uzbek experience.

It ought to be noted that the research was not confined to the Karimova case alone. In order to investigate the generalisability of the patterns observed, further case studies were conducted drawing again on court documents, corporate registry records, archives, audits, media accounts, and interviews. A total of eight cases studies were conducted. They focused on companies targeted by state-organised rackets, spanning the textile, construction, mining and manufacturing industries in Uzbekistan. This provided important insights into the repertoires employed by organised crime syndicates operating through government agencies. While these case studies will be presented in a separate output, they have informed the analysis presented in this report.

Once collected, data on the Karimova case – complimented by further studies – was analysed using thematic coding, ISNA and transaction mapping, guided by the elementary and advanced units of analysis outlined above. In particular, a thematic database was generated using Excel, in which coded data was imported. The imported data was simultaneously embedded in a Casefile digraph, and a Tiki-Toki timeline. Drawing on the thematic database, digraph and timeline, a biographical narrative was generated that pulls together the threads emerging from the elementary units of analysis, thus allowing the Karimova syndicate's core characteristics to be plotted. In light of the research aims, a particular focus was placed on the syndicate's structure, the repertoires employed, and the national/transnational infrastructure utilised, set against a broader political-economy of state-organised crime in Uzbekistan.

‘..The prosecutor is working only on the basis of instructions from someone who is in power and they couldn’t care less about the consequence of not following legal procedures. Who is going to punish them? No one!’

Uzbek informant



3. A biographical portrait of the Karimova syndicate: Beyond the ‘Uzbek princess’

3.1 The political backdrop

After 67 years of Soviet administration, Uzbekistan achieved independence in 1991. As the most populous nation, in a region of geopolitical significance – bridging Asia and Europe – China, Russia and the United States have each jockeyed for influence. So too has global capital. With a sizable consumer base, a nascent private sector, and a political elite cautiously courting market reforms, Uzbekistan has been targeted both by global brands and small businesspeople alike, seeking the potent returns promised by a green-fields investment site, where political patronage can secure privileged market access.

Over the last two decades, Uzbekistan’s journey into independent statehood has been synonymous with the country’s former figurehead, Islam Karimov, who officially passed away on 2 September 2016. After ascending to the Presidency in 1991 – from his previous role as First Secretary of the Communist party – Karimov oversaw a deeply authoritarian regime. Although the Karimov government has been commended by some international commentators,²⁰ for its role in countering extremism, and overseeing modest levels of economic growth – although impossible to verify – nonetheless, a large volume of evidence collated by local and international civil society reveal a state dependent on systemic forms of corruption, mass-surveillance, torture, forced labour, and repression.²¹

These illicit activities are underpinned by a system of political and economic power, which has led the government of Uzbekistan to be labelled a ‘mafia’ or ‘gangster’ state, by citizens, investors,²² and foreign prosecutors.²³ This label captures a number of dynamics that have been documented over the past two decades by scholars, journalists and civil society:

- **First**, the exercise of power takes place through informal networks populated by senior figures in government, business and organised crime. These distinct networks, organised by senior figureheads, share support, resources and fealty, in a bid to secure their mutual interests, vis-à-vis rival networks. Such networks are sometimes

²⁰ M. Kamp, ‘Karimov’s economy: a memoir from 25 years of periodic observation’, *Central Asia Survey*, 2016, http://www.tandf.co.uk/journals/pdf/5_Kamp_final220916.pdf (accessed 13 February 2017); G. Ó Colmáin, ‘Uzbekistan: A prime target for western imperialism’, *Global Research*, September 2016, <http://www.globalresearch.ca/uzbekistan-a-prime-target-for-western-imperialism/5548048> (accessed 1 February 2017).

²¹ See for example: G. Zasada, ‘Uzbekistan: The major source of instability in Central Asia?’, *OSW Studies*, 2015, pp. 68-84; International Crisis Group, ‘Uzbekistan: In for the Long Haul’, *Europe and Central Asia*, 2006, <https://www.crisisgroup.org/europe-central-asia/central-asia/uzbekistan/uzbekistan-long-haul> (accessed 1 February 2016); Uzbek-German Forum for Human Rights, ‘Uzbek Government Continued Systematic Forced Labor to Weed the Cotton Fields in 2015’, *Uzbek-German Forum for Human Rights*, August 2015, <http://uzbekgermanforum.org/wp-content/uploads/2015/09/Weeding-Report-2015.pdf> (accessed 1 February 2017); Uzbek-German Forum for Human Rights, ‘Forced Labor in Uzbekistan’s Cotton Sector: Preliminary Findings from the 2016 Harvest’, *Uzbek-German Forum for Human Rights*, December 2016, http://uzbekgermanforum.org/wp-content/uploads/2016/12/20161205-Forced-Labor-in-Uzbekistans-Cotton-Sector_final-memo-1.pdf (accessed 1 February 2017); Human Rights Watch, ‘Uzbekistan: Events of 2015’, *Human Rights Watch: World Report*, 2016, <https://www.hrw.org/world-report/2016/country-chapters/uzbekistan#61a2bb> (accessed 1 February 2017).

²² In interviews with foreign investors and exiled citizens, this was the most common phrase used to describe the modus operandi of the Uzbek state.

²³ R. Orange, ‘Swedish Prosecutor Characterizes Uzbekistan as “Gangster State”’, *EurasiaNet*, 2015, www.eurasianet.org/node/76246 (accessed 27 November 2016).

described using the term 'clan'.²⁴ However, ethnic, locational and kinship ties are not ends in themselves, they are instead points of solidarity, which support the overriding priorities of commanding key state agencies, obtaining control over lucrative rackets, controlling black markets, directing licit industries, and extracting rents from different sectors of the economy.

- **Second**, social status, employment, and the provision of public services, are secured through leveraging personal ties, 'clan' affiliations, and/or through the provision of bribes. This is a means of survival for the general population, and a mechanism through which to secure economic and political ascendancy for elites.
- **Third**, owing to the complexity and ambiguity of laws in Uzbekistan, all members of society engage in illegal activity, whether intentionally or unwittingly. On the one hand, this renders the entire population vulnerable to state organised extortion rackets, on the other it increases the everyday importance of maintaining ties with different networks of influence that can help insulate individuals from severe forms of persecution. Even where an individual or organisation has not committed an offence, the SNB, prosecutors and the courts, permit and are party to, forms of coercion, and fraud, designed to unfairly convict targets. Set against this backdrop organised crime in Uzbekistan operates through the state using the precarious and exposed position of the national population to coerce, extort and steal, under the garb of civil and criminal 'justice'.
- **Fourth**, formally speaking Uzbekistan has a state edifice that mimics the characteristics of a parliamentary democracy, where there is a division of power, rule of law, and due process. However, this formal appearance belies a more opaque structure that sees the state edifice operated on the basis of personal dictates, delivered by senior ranking officials, embedded

within clan networks, who have assumed key positions of power. Historically important seats of power have included the Office of the President, the Chief of the National Security Service, the Office of the Prime Minister, the Interior Minister and the Minister of Finance.

Given these conditions, Uzbekistan has consistently scored low ratings in international indexes which measure good governance, democratic participation and human rights compliance. Nevertheless, during his tenure, Islam Karimov, proved a charismatic political figure, adept at managing, and playing off, domestic and international power-brokers, which enabled his government to endure these criticisms, with only modest forms of censure.

However, this "fatherly" image of a Central Asian "strongman", carefully nursing a fragile country into independent nationhood, was diluted internationally when Karimov's eldest daughter, Gulnara Karimova, was implicated during 2012 in an international exposé focused on bribery in the telecoms sector. Up until this moment, Karimova had attempted to cultivate a public image typified by her contributions to the arts, charities and scholarship. Indeed, by 2010, at the age of just 38, she had an accomplished career as a pop star, diplomat, academic, fashion designer, poet and Deputy Minister. These achievements were offset, to an extent, by a slew of critical commentary which drew attention to Karimova's economic scandals, socialite lifestyle, connections with organised crime, and unedifying court battles.

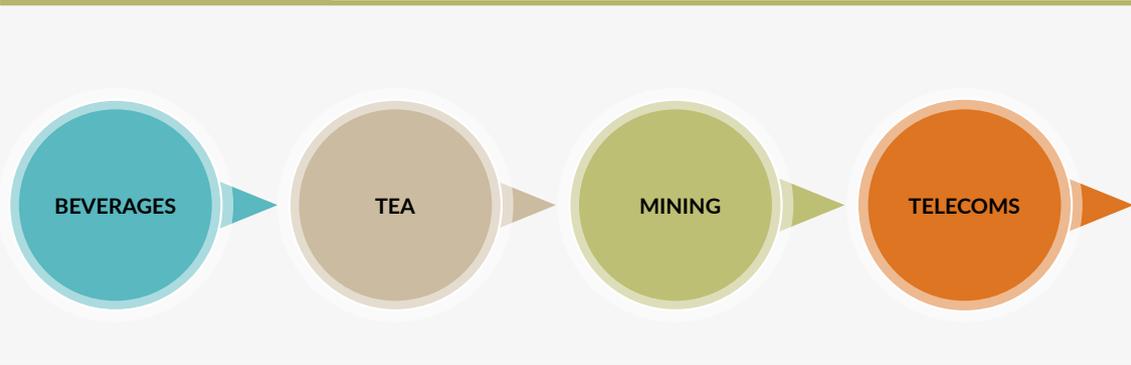
However, perhaps most critically, Karimova positioned herself as the natural successor for the Presidency. This bid for power was backed by the considerable business empire Kairmova had accumulated over the short space of a decade. Indeed, she framed herself as the enterprising voice of Uzbekistan's predominantly youth population, a figure who would help internationalise and modernise the country bringing it into cosmopolitan circles.

²⁴ See for example: A. Ceccarelli, 'Clans, politics and organized crime in Central Asia', *Trends in Organized Crime*, vol. 10, no. 3, 2007, pp.19-36; I. Tunçer-Kılavuz, 'Political and social networks in Tajikistan and Uzbekistan: 'clan', region and beyond', *Central Asia Survey*, vol. 28, No. 3, 2009, pp.323-334; A. Ilkhamov, 'Neopatrimonialism, interest groups and patronage networks: the impasses of the governance system in Uzbekistan', *Central Asia Survey*, vol. 26, No. 1, 2007, pp.65-84.

This bid for the Presidency occurred within a complex field of struggle, organised around shifting balances of power between clan networks, international business figures, and key power-brokers within the Uzbek state, including the SNB Chief, Rustam Inoyatov, the new President Shavkat Mirziyoyev, and the Finance Minister Rustam Azimov. Ultimately Karimova experienced economic and political overreach, when she began to seize economic interests, and sites of political power, without the requisite leverage to secure these assets in the long-term, vis-à-vis rivals. This overreach led to her rapid downfall in 2014, as rival power-brokers dispossessed Karimova of her business and political assets using techniques that came from the same repertoire the Karimova syndicate is alleged to have mastered and employed between 2001 and 2012.

It is this period to which we will now turn, focusing first on Karimova's return to Tashkent from the United States in 2001, moving progressively on to her involvement in a range of sectors, with a particular emphasis on telecommunications. Our analytical focus will be on documenting the organised, state-centred nature of these activities, and the role played by a transnational edifice of corporate shell companies and offshore bank accounts. The telling of this narrative will pivot upon four case studies, that examine allegations surrounding syndicate activity in the beverage, mining, tea, and telecommunication industries. The analysis emerging out of these case studies will lay the foundations for introducing a transformative approach to justice that can help remediate and empower the syndicate's victims, including through asset-recovery.

16 The case studies



3.2 From New Jersey to Tashkent: Karimova and the Coca-Cola Joint Venture

During the 1990s Gulnara Karimova made a modest entry into public life. Graduating from Tashkent State University in 1994 with a Bachelor of Arts, she served in a range of senior positions within the Ministry of Foreign Affairs, while she studied on a Masters programme.

During this period, an important tie was established with Mansur Maqsudi. Born in Afghanistan to a powerful clan of ethnic Uzbeks, Maqsudi emigrated to the United States in 1979 at the age of 12. After meeting Karimova at her 19th birthday party in 1991, the pair were married during November that year, relocating to a primary residence in New Jersey. Maqsudi was then appointed Managing Director of Roz Trading Limited, a Cayman Island company 'involved in the manufacture, trade, and distribution of consumer goods in numerous countries'.²⁵

Roz Trading had a fully owned Uzbek subsidiary, by the same name, which was approved by the Uzbek Department of Finance and registered with the Department of Justice. During the early 1990s, Roz Trading's Uzbek subsidiary established a joint venture with the Coca-Cola Export Corporation (Coca-Cola) and the Government of Uzbekistan. The joint venture mechanism, is a popular framework for establishing public-private partnerships in Uzbekistan. However, they have also been connected to a range of illicit activities, including bribery, extortion and expropriation.²⁶

Given the strong weight of evidence on foreign investment in Uzbekistan, it is fair to surmise that Coca-Cola's entry into the Uzbek beverage market, required support from key power-brokers within the Uzbek state if it was to secure the requisite approvals and permissions.²⁷ Certainly it appears Coca-Cola wanted the infrastructure in place that would mitigate against arbitrary acts of extortion or expropriation. To that end, as a condition of entry, Coca-Cola sought 'the President's and Cabinet of Ministers' guarantee that all necessary government approvals would be forthcoming'.²⁸

Given that Maqsudi at the time was directly tied to the President by marriage, he was an attractive local partner for any company seeking secure market access in Uzbekistan. While there is no evidence on the public record to suggest any illegal payment was made to Maqsudi, at the very least partnering with Roz Trading, was an astute and pragmatic choice in Uzbekistan's turbulent political environment.

A joint-venture was formally entered into on 16 June 1993, establishing Coca-Cola Bottlers of Uzbekistan (CCBU).²⁹ Roz Trading, Coca-Cola, and the Uzbek government each owned a third of CCBU.

²⁵ Complaint. *ROZ Trading Ltd., v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 2.1 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

²⁶ Joint-ventures, in this respect, is a gatekeeping mechanism. Investors are frequently prohibited from entering Uzbekistan without a local partner. To secure a local joint-venture partner, bribe payments often must be paid to the industry patron, who becomes the investor's 'friend' ensuring requisite approvals are given. Once enmeshed in the joint-venture, the investor is vulnerable to acts of extortion – protection payments, to avoid arbitrary shut-downs – and expropriation, particularly if their patron is ousted by a rival.

²⁷ Which is not to say this, in itself, is evidence of any misconduct on Coca Cola's behalf.

²⁸ Complaint. *ROZ Trading Ltd., v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 3.2 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

²⁹ Complaint. *ROZ Trading Ltd. v. Zeromax Group, Inc., et al.*, Case 1:06-cv-01040-CKK, para. 6 (D.D.C. June. 6, 2006).

The Uzbek government's share in the joint-venture was administered by Uzpischeprom, an agency set up through Presidential decree to regulate and oversee the operation of the food industry. Under the joint venture agreement, Uzpischeprom was responsible for securing 'all necessary government approvals, permits, consents, authorisations and licences'.³⁰ Roz Trading claims that Uzpischeprom 'remained entirely subservient to the will of the President of Uzbekistan, Islam Karimov'.³¹

The joint-venture was a success. CCBU's assets were valued at approximately US\$150 million in 2000.³² The Uzbek subsidiary was also the first bottler to receive Coca-Cola's Bottler of the Year award, two years in a row.

That said, the joint-venture faced operational difficulties, which were connected to Uzbekistan's restrictive currency controls. Under this system, individuals and companies must obtain state approval to convert the Uzbekistani so'm into US Dollars (USD), a process that is regulated by strict quotas. This has become a vehicle for soliciting bribes from the private sector, extorting payments from currency-control violators, and profiteering from Uzbekistan's sizable currency-exchange black market.

As a result of this restrictive system, Roz Trading claims that CCBU was unable to convert its revenues from Uzbekistani so'm into USD, to pay off approximately \$US12 million in accounts receivable for purchased concentrate from Coca-Cola.³³ In order to circumvent currency restrictions, Roz Trading was evidently given special permission by the Uzbek government to purchase raw materials such as oil and cotton in Uzbekistani so'm. Cotton in particular is one of Uzbekistan's chief exports, which is produced through a system of state-organised forced labour, that includes children. In this instance, the oil and

cotton was allegedly sold by a CCBU subsidiary in USD, allowing repayments to be made to Coca-Cola.

Onerous economic restrictions, alongside arbitrarily enforced, ambiguous regulations such as this, dictate that commercial advantage in Uzbekistan often comes from special political dispensations, rather than innovation. This creates a context where the corporate goal of competitive advantage, and patronage politics rooted in rent-seeking, can come into alignment. In the case of CCBU, the special dispensation Roz Trading claims it was awarded, would appear symptomatic of the distinct commercial privileges that businesses derive when they have direct ties to powerful state figures. Although there is no evidence available to suggest the influence deployed here was of an illicit form.

During this successful operational period for Roz Trading, Maqsudi and Karimova had two children. They maintained their New Jersey residence, while travelling to Uzbekistan for business. In 1998, the family temporarily relocated to Massachusetts, so Karimova and Maqsudi could pursue Masters degrees at Harvard University. This overlapped with PhD research conducted by Karimova at the University of World Economy and Diplomacy, Tashkent. She completed her doctorate in less than two years.³⁴

During 1999 the couple purchased a 'large and luxurious home' in New Jersey's affluent Mendham area.³⁵ The home was reportedly, 'lavishly furnished'.³⁶ Indeed, the couple is said to have amassed a fortune approaching US\$80 million.³⁷ According to one press report Karimova 'owned \$ 4.5 million (£2.47 million) in jewellery, \$11 million in bank and investment holdings in Geneva and Dubai, a \$10 million retail complex and nightclubs worth \$4 million'.³⁸

³⁰ Complaint. *ROZ Trading Ltd., v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 2.1 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

³¹ *Ibid.*, para. 2.3.

³² Complaint. *ROZ Trading Ltd. v. Zeromax Group, Inc., et al.*, Case 1:06-cv-01040-CKK, para. 11 (D.D.C. June. 6, 2006).³³ Which is not to say this, in itself, is evidence of any misconduct on Coca Cola's behalf.

³³ *Ibid.*, para. 3.24.

³⁴ R. Norland, 'Biographic Information on Uzbekistan's Deputy Foreign Minister Gulnara Karimova', *Wikileaks*, 6 May 2008, https://wikileaks.org/plusd/cables/O8TASHKENT529_a.html (accessed 28th November 2016).

³⁵ Judgement. *Mansur Maqsudi v. Gulnara Karimova Maqsudi*, Case No. 830 A.2d 929. Section I, para. 9 (N.J. Super. Ct. App. Div. Sept. 12, 2002).

³⁶ *Ibid.*

³⁷ R. L. Jones, 'Immigrant Wins Custody of Children, Who Are With Mother in Uzbekistan', *The New York Times*, 11 February 2003, <http://www.nytimes.com/2003/02/11/nyregion/immigrant-wins-custody-of-children-who-are-with-mother-in-uzbekistan.html>, (accessed 28 November 2016).

³⁸ J. Page, "'Uzbek princess" lives it up in a one-party state', *The Times (UK)*, 6 August 2004, p.15.

Two years later their marriage came to an abrupt end. It is alleged that Maqsudi was assaulted by Karimova's security detail, following a heated argument on 28 July 2001.³⁹ Karimova then took their two children and left for Tashkent with her 'entourage'.⁴⁰ Once back in Uzbekistan, Karimova filed for divorce and custody of the children at the Mirabad District Court of Uzbekistan.⁴¹

Divorce and custody was granted on 5 October 2001.⁴² When the matter was considered in the US, by the Superior Court of New Jersey, Judge Wilson concluded that Karimova had knowingly mislead the Mirabad court. The US Judge also suggested that the Mirabad District Court had been party to false documents, forged in order to complete service requirements under Uzbek law.⁴³

By the time of the divorce proceedings, Roz Trading's interest in CCBU had grown to 55.118%,⁴⁴ Coca-Cola retained its 42.882% stake, while Uzpischeprom's interest was now 2%.⁴⁵ Roz Trading insists that during 2001/02 Karimova initiated a violent campaign to destroy the company's Uzbek subsidiary and expropriate its share in CCBU, using state instruments.⁴⁶

In a complaint lodged with the District Court of Columbia, Roz Trading claims that within weeks of the separation between Karimova and Maqsudi,

Uzbekistan's feared National Security Service (the successor to the KGB in Uzbekistan) ("Secret Police") raided both ROZs and CCBUs offices in Tashkent, seized company documents, and threatened employees, holding some of them

hostage. CCBUs Managing Director and his Deputy were both taken away by the Secret Police and held for interrogation for more than 24 hours.⁴⁷

This type of coercive activity, administered through the National Security Service – known by the acronym, SNB – is commonplace in Uzbekistan. The SNB has an expansive presence throughout the country, with strong infiltration within the state apparatus. In addition to being a powerful economic actor in its own right – which extracts rents and controls industries – state officials, well connected businessmen and clan leaders, leverage their ties with the SNB to conduct raids designed to extort businesses, expropriate companies, and destroy rivals.⁴⁸ As we will shortly see, there is compelling evidence to suggest that Karimova, through her father's political allies and security chief, was able to have personal orders implemented by a range of state agencies. This lends credibility to Roz Trading's allegation.

During this period of contention, Karimova recruited a talented young business adviser to the Maqsudi family, Farhod Inogambaev, who had specialist expertise in international finance. According to Inogambaev, he agreed to work for Karimova after his brother was taken hostage by the Presidential Security Service, and Karimova's Chief of Security on 24 August 2001.⁴⁹ It is alleged that Karimova was able to influence the activities of the Presidential Security Service, through her ties with its Deputy Chief, Alisher Sayfuddinov.⁵⁰ With Inogambaev's brother in detection, it was indicated that harm would come to his family unless Inogambaev returned from his post in Dubai to act for Karimova.⁵¹

³⁹ Complaint. *Mansur Maqsudi v. Gulnara Karimova Maqsudi*, Case No. 830 A.2d 929, Section I, para. 15 (N.J. Super. Ct. App. Div. Sept. 12, 2002).

⁴⁰ *Ibid.*, Section I, para. 17.

⁴¹ *Ibid.*, Section II, para. 1.

⁴² *Ibid.*, Section II, para. 4.

⁴³ *Ibid.*, Section II, para. 1.

⁴⁴ Complaint. *ROZ Trading Ltd., v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para 3.43 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁴⁵ *Ibid.*, para. 2.

⁴⁶ See: Complaint. *ROZ Trading Ltd., v. Coca-Cola Export Corp., et al.*, Case No. GZ SCH-4986 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006); Complaint. *ROZ Trading Ltd. v. Zeromax Group, Inc., et al.*, Case 1:06-cv-01040-CKK (D.D.C. June. 6, 2006).

⁴⁷ *Ibid.*, para. 14-15.

⁴⁸ These insights are drawn from insider interviews outlined in section 1.2. This included senior state and business officials. To ensure participant anonymity no information will be cited or referenced that might disclose the source.

⁴⁹ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 10-12 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁵⁰ *Ibid.*, para. 27-29.

⁵¹ *Ibid.*, para. 9.

17 The three currencies of power in Uzbekistan

- 1 Personal ties (who you know) and the networks to which you belong
- 2 Tribute (payments to secure loyalty or services)
- 3 Violence (coerce target audience, terrorise general population, via law enforcement and the state's security apparatus)

This coercive tactic is not novel in Uzbekistan. State security agencies are frequently used as an instrument to kidnap and imprison individuals. This can occur for a range of reasons, sometimes it is to extract a ransom payment or to expropriate a business owned by the kidnapped individual.⁵² On other occasions prisoners are merely a device, the real agenda is to coerce a family member, wider

community or colleagues.⁵³ With no independent judiciary, the victim of these tactics are faced with the choice of compliance or exile.⁵⁴ When the individual has family resident in Uzbekistan, compliance is often the only feasible option.

In Inogambaev's case, he conceded to Karimova's request, becoming her senior financial adviser. After accepting the position, Inogambaev claims it was made clear to him in September 2001 by Karimova, that 'high-level Uzbek officials', acting under her instruction, were seeking Coca-Cola's support for excising Roz Trading from the CCBU joint-venture.⁵⁵ Deputy Foreign Minister Sodiq Safoyev,⁵⁶ was said to be the primary envoy between Coca-Cola and Karimova.⁵⁷ Before being appointed Deputy Foreign Minister in 2001, Safoyev had served as the Ambassador to the United States between 1996 and 2001, a time in which Karimova had been a New Jersey resident. Evidence suggests that Safoyev had a range of senior level contacts within Coca-Cola through which to facilitate negotiations.⁵⁸

18 The Bridge

Social networks are frequently made up of distinct subgroups. For example, there may be a cluster of actors connected by their employment within Corporation A, who operate in separation from actors working in Government Department A. If Government Department A is overseeing a tender for a large public contract, which Corporation A wishes to bid for, commercial advantage can be obtained if an actor from Corporation A, is able to establish a tie with an actor in Government Department A. This tie is known as a bridge, because it connects together two subgroups.

Evidence suggests that Karimova was effective at exerting influence over the state apparatus, and the private sector, by establishing bridges with actors, who had either influence or control over key organs. For example, Sodiq Safoyev was said to be an effective bridge into Coca-Cola's executive hierarchy, while Alisher Sayfuddinov was a bridge into Uzbekistan's criminal justice agencies. Karimova could only connect with these bridges because of the advantageous position she enjoyed as the President's daughter. This demonstrates the way in which established hierarchies, create imbalanced playing fields, that advantage some over others.

⁵² Insider interviews conducted during 2016. See section 1.2

⁵³ See for example: Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 9 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006); Notice of Arbitration. *Oxus Gold PLC v. The Republic of Uzbekistan et al*, para. 73 (Arbitral Tribunal, Aug. 31, 2011); Complaint. *Interspan Distribution Corp., v. Liberty Insurance Underwriters, Inc.*, Case No. 4:07-cv-1078, para. 2-5 (S.D. Tex. March 30, 2007).

⁵⁴ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁵⁵ *Ibid*, para. 32.

⁵⁶ At the time of writing Safoyev is Chair of Uzbekistan's Foreign Relations Committee. He recently spoke in Washington D.C. on post-Karimov policy in Uzbekistan.

⁵⁷ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 36 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁵⁸ *Ibid*, para. 36 and 39.

In early 2002 a meeting was allegedly held with the President of Coca-Cola's Eurasia Division, Ahmet Bozer,⁵⁹ in the lobby of the Intercontinental Hotel in Tashkent.⁶⁰ Inogambaev notes he attended on Karimova's behalf, along with her adviser, Brian Bowen, the founder of Uzbek telecommunications firm Uzdurobita, and a Karimova aid, Irina Avtaikina.⁶¹ According to Inogambaev, Bozer pledged his company's support for Karimova in her dispute with ROZ Trading.⁶² Inogambaev claims it was agreed that Karimova would take over as a joint-venture partner, with immediate control over personnel decisions at CCBU.⁶³ In return for Coca-Cola's cooperation, she 'would assist with a number of issues that were crucial to the success of CCBU, including convertibility of Uzbek currency'.⁶⁴ It is also claimed that Karimova met personally with Cem Kozlu, a senior Coca-Cola official, at the World Economic Forum in Davos, Switzerland.⁶⁵ Coca-Cola's support for Karimova was again said to have been pledged.⁶⁶

Of course, at this stage Coca-Cola had a highly profitable operation in Uzbekistan, opposing the President's daughter could have led to the loss of their subsidiary. Indeed, the personalised, arbitrary administration of political power in Uzbekistan, leaves commercial actors dependent on patrons for survival. Coca-Cola was also concerned that Karimova had entered into negotiations with rivals Pepsi.⁶⁷ Accordingly, expropriation of company assets and their replacement with a competitor was a possibility unless Coca-Cola conceded to her requests.

At a day to day level, Karimova's involvement in CCBU's management is said to have been prosecuted through a proxy, Irina Avtaikina, who acted as the senior assistant to the company's General Manager.⁶⁸ Again, appointing proxies (Avtaikina), and fixers (Inogambaev and Bowen), is customary practice for senior Uzbek power-brokers. Face-to-face contact with clients, tends to be of a ceremonial, rather than practical nature. This creates insulation between patron and client, allowing the latter to more effectively control and manage the relationship, with a degree of plausible deniability.

19 Key actors in CCBU/Coca-Cola negotiation



ENVOY

Sodiq Safoyev

Deputy Foreign Minister,



ADVISER/FIXER

Farhod Inogambaev

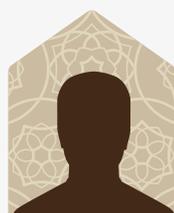
Financial Adviser



ADVISER/FIXER

Brian Bowen

Founder, Uzdurobita



FIXER

Alisher Sayfuddinov

Deputy Chief, Presidential Security Service



PROXY

Irina Avtaikina

⁵⁹ Up until August 2015 Bozer was Executive Vice President and President of Coca-Cola International.

⁶⁰ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 33 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁶¹ Ibid.

⁶² Ibid, para. 34.

⁶³ Ibid, para. 35.

⁶⁴ Ibid, para. 36.

⁶⁵ Ibid, para. 42.

⁶⁶ Ibid.

⁶⁷ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 46 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁶⁸ Ibid, para. 41.

Whilst Karimova's advisers attempted to secure Coca-Cola's backing, legal action in Uzbekistan was orchestrated against Roz Trading. On 28 September 2001 – the day of Karimova's divorce hearing in the Mirabad District Court – the Uzbek Anti-Monopoly Committee initiated action in the Economic Court of Tashkent against Roz Trading, arguing post-1993 share reallocations within CCBU were illegal.⁶⁹ Just six months prior, the committee had approved these transactions. Attorneys representing Roz Trading were denied visas into Uzbekistan, which hindered the company's defence.⁷⁰

Following a number of appeals, on 5 February 2002 the Supreme Court of Uzbekistan reduced, without compensation, Roz Trading's interest from 55.118% to 23.416%.⁷¹ In parallel with this case, the Ministry of Justice initiated proceedings to liquidate the remaining 23.416% interest, alleging a failure to comply with charter funding requirements.⁷² On 11 September 2002, the Supreme Economic Court of Uzbekistan approved the liquidation request.⁷³ Accordingly, Roz Trading lost its majority stake in a business said to be worth approximately US\$150 million.⁷⁴

20 Approximate transactions

When transactions are mapped onto a timeline, it is important to decipher potentially hidden relationships between events. Graph proximity is helpful in this respect. The temporal correlation between events can be a signal of a deeper relationship between them. For instance, on the same day that Karimova's divorce proceeding

against Maqsudi began, the Uzbek Anti-Monopoly Committee launched an action to dispossess Roz Trading of shares in CCBU.⁷⁵ This would appear to suggest a range of government agencies and actors, were working together to achieve the common goal of dispossessing Maqsudi of his business and family.

Methodological note: Using transaction mapping to uncover hidden relationships

Inogambaev maintains that this was an act of economic persecution. He argues Karimova used her power to influence the actions of Uzbek prosecutors and judges:

She orchestrated every detail of the court proceedings against ROZ. For example, she told the prosecutors precisely what charges to bring and how to prosecute the case. Ms. Karimova knew that there was no merit to these charges. Ms. Karimova, through Alisher Sayfuddinov and

others, even told judges exactly what actions to take in the court proceedings against ROZ. Ms. Karimova ordered Mr. Sayfuddinov and others to bring her drafts of all court decisions relating to ROZ, CCBU, and Mansur Maqsudi. Ms. Karimova then reviewed, edited, and approved these decisions. Ms. Karimova often wrote substantial portions of the decisions herself to make sure that they contained the exact language and ordered the precise outcome she desired.⁷⁶

⁶⁹ Complaint. *ROZ Trading Ltd. v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para 3.38 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁷⁰ *Ibid*, para. 3.41.

⁷¹ *Ibid*, para. 3.43.

⁷² *Ibid*, para. 3.44-3.45.

⁷³ *Ibid*, para. 3.45

⁷⁴ Complaint. *ROZ Trading Ltd. v. Zeromax Group, Inc., et al.*, Case 1:06-cv-01040-CKK, para. 11 (D.D.C. June. 6, 2006).

⁷⁵ Complaint. *ROZ Trading Ltd. v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 3.38 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁷⁶ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.* Case No. GZ SCH-4986, para. 28-29 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

Coupled to prosecutions and liquidation proceedings, Maqsudi's family was evidently persecuted through a campaign of state violence. It is alleged:

In December 2001, some of Mr. Maqsudi's family members were taken in the middle of a winter night from their homes in Uzbekistan to the border of Afghanistan and simply left there with no belongings. His elderly grandmother was forced to leave her home without her diabetes medication. Other family members were taken hostage and remain imprisoned. Indeed, their exact whereabouts are still unknown today. Further, Mr. Maqsudi's mother's home was demolished ... Family members who remain in Uzbekistan remain subject to detention, intimidation, and torture.⁷⁷

There are also allegations that Karimova, through the Uzbek state, abused the Interpol system in an attempt to restrict Maqsudi's freedom of movement.⁷⁸ US Congressman Nick Smith claimed Karimova 'used her family connection to have Uzbekistan issue an Interpol Red Notice throughout many of the countries in which Interpol operates to have Mr. Maqsudi arrested when he travels overseas'.⁷⁹

Over this period when Roz Trading's CCBU stake was being liquidated, Karimova's involvement in the joint-venture was said to have grown. According to Inogambaev, Karimova 'directed that CCBU purchase sugar and other raw materials from her companies [Revi Holdings and United International Group⁸⁰] at inflated prices'.⁸¹ The majority of these 'inflated' payments were then evidently transferred into Karimova's personal bank accounts.

21 Alleged payments between CCBU and Karimova⁸²

DATE	TRANSACTION	SENDER	RECEIVER
14/1/2003	US \$467,477.44	CCBU	Revi Holdings
21/1/2003	US \$350,000	Revi Holdings	Gulnara Karimova
6/4/2003	US \$399,958.16	CCBU	Revi Holdings
6/4/2003	US \$350,000	CCBU	United International Group
9/4/2003	US \$362,000	United International Group	Gulnara Karimova

⁷⁷ Complaint. *ROZ Trading Ltd. v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 3.37 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁷⁸ P. Baker, 'Battle Royal', *The Washington Post*, 13 April 2004, https://www.washingtonpost.com/archive/lifestyle/2004/04/13/battle-royal/2462663c-5a2d-4b69-8ef0-228b92953599/?utm_term=.03e7094f3042 (accessed 29 November 2016); C. Smith, 'Battle Royal', *US Congressional Record*, 11 May 2004, Pages E807-E809. See: <https://www.congress.gov/crec/2004/05/11/CREC-2004-05-11-pt1-PgE807.pdf> (accessed 29 November 2016); C. Smith, 'A Parent's Worst Nightmare: The Heartbreak of International Child Abductions', *Committee on International Relations, US House of Representatives*, 22 June 2004, p.39, http://commdocs.house.gov/committees/intlrel/hfa94505.000/hfa94505_0.HTM (accessed 29 November 2016).

⁷⁹ C. Smith, 'A Parent's Worst Nightmare: The Heartbreak of International Child Abductions', *Committee on International Relations, US House of Representatives*, 22 June 2004, p.39, http://commdocs.house.gov/committees/intlrel/hfa94505.000/hfa94505_0.HTM (accessed 29 November 2016).

⁸⁰ Brian Bowen and Farhod Inogambaev helped Karimova set up United International Group, initially to manage her proposed stake in CCBU.

⁸¹ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 50 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁸² Complaint. *ROZ Trading Ltd. v. Coca-Cola Export Corp. et al.*, Case No. SCH-4986, para. 2.1 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006); D. Stern, 'Rich pickings for Uzbek leader's daughter', *Financial Times*, 18 August 2003, <http://bactra.org/sloth/2003-09-24b.html> (accessed 29 November 2016).

A subsequent investigation conducted by *L'Hebdo* claims:

Banking documents we have consulted indicate how the president's daughter used Coca-Cola Bottlers of Uzbekistan (CCBU) to serve her personal interests. Between early 2002 and March 2003, two entities registered under her name in Dubai, Revi Holdings and OA Stores, received large sums from CCBU, which were then transferred to the private accounts of Gulnara Karimova at the Citibank of Dubai and HSBC in Jersey. She collected in this way \$5.1 million during the period.⁸³

A *Financial Times* feature also notes that Revi Holdings was set up in the Sharjah free trade zone, with a sister company in the UK. Revi Holdings, it reports, acted 'as parent company for Ms Karimova's various businesses and collect[ed] the revenues from their activities'.⁸⁴

If accurate, these transactions presage the broad characteristics that marked Karimova's role in the telecommunications industry, as set out in subsequent prosecutions and asset forfeiture proceedings. In particular, ostensibly legitimate transactions with offshore companies, were used to mask illicit payments designed to secure Karimova's protection. These payments were then channelled into offshore bank accounts, linked to Karimova. However, it appears that in this instance, Karimova had not insulated her role in Revi Holdings, using a protective layer of proxies. Later she is alleged to have changed tact in this respect, employing proxy directors and shareholders in her offshore corporate vehicles (see section 2.4).

Having been squeezed out of the Uzbek market, Roz Trading alleges that its stake in CCBU was

eventually acquired by the Swiss company, Zeromax GmbH, through its subsidiary Muzimpex. Zeromax GmbH is commonly pointed to as one of several offshore vehicles Karimova employed to prosecute her business interests in Uzbekistan.⁸⁵ According to Karimova's former financial adviser, this relationship with Zeromax began when Karimova acted as a high level fixer for the company:

In 2003, Zeromax paid Karimova for her assistance in obtaining a multi-million dollar contract with Uzbekistan for the construction of the Shurtan-Sherabad natural gas pipeline. Upon information and belief, shortly after Uzbekistan's Cabinet of Ministers approved this contract on March 3, 2003, Zeromax deposited a \$1 million payment in Karimova's personal account in the Rietumu Bank in Riga, Latvia.⁸⁶

Although on paper the company was owned by Miradil S. Djalalov, an alleged frontman with 'close ties to the Karimov family and Russian-Uzbek tycoon Alisher Usmonov',⁸⁷ the contention is that Karimova held a significant beneficial stake in the firm. For instance, US diplomatic cables allege: 'She ... reportedly has agreed with local mafia boss, Gafur Rakhimov, to take over his share of Zeromax in return for not interfering in his other businesses'.⁸⁸

This assessment is supported by Farhod Inogambaev who observes 'Ms. Karimova gained control over Zeromax', and then 'used Zeromax to formalize her control over CCBU'.⁸⁹ He continues: 'among other strategies designed to hide its true businesses, Zeromax re-registered several times, changed ownership, and created and systematically altered different websites'.⁹⁰ A Central Asian analyst quoted in a 2009 edition of *Foreign Policy*, expands

83 J. Zaugg, 'Les Ouzbeks lavent leur argent à Genève', *L'Hebdo*, 15 August 2012, http://www.hebdo.ch/les_ouzbeks_lavent_leur_argent_a_geneve_163215_.html (accessed 1 December 2016).

84 D. Stern, 'Rich pickings for Uzbek leader's daughter', *Financial Times*, 18 August 2003, <http://bactra.org/sloth/2003-09-24b.html> (accessed 29 November 2016).

85 Motion. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, Aug. 23, 2006); Memorandum and Order. *Interspan Distribution Corp. v. Liberty Insurance Underwriters, INC.*, Case No. 4:07-cv-1078, Section L, para. 3 (S.D. Tex. Aug. 21, 2009); Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07-cv-1078, (S.D. Tex. March 30, 2007), para 62; Notice of Arbitration, *Oxus Gold PLC v. The Republic of Uzbekistan et al*, para. 50 (Arbitral Tribunal, Aug. 31, 2011).

86 Complaint. *ROZ Trading Ltd. v. Zeromax Group, Inc., et al.*, Case 1:06-cv-01040-CKK, para. 25 (D.D.C. June. 6, 2006).

87 R. Norlad, 'Uzbekistan: From A to Zeromax', *Wikileaks*, 20 January 2010, https://wikileaks.org/plusd/cables/10TASHKENT27_a.html (accessed 1 February 2017).

88 J. Purnell, 'Gulnora Inc. Strikes Again', *Wikileaks*, 28 January 2005, https://wikileaks.org/plusd/cables/05TASHKENT284_a.html (accessed 29 November 2016).

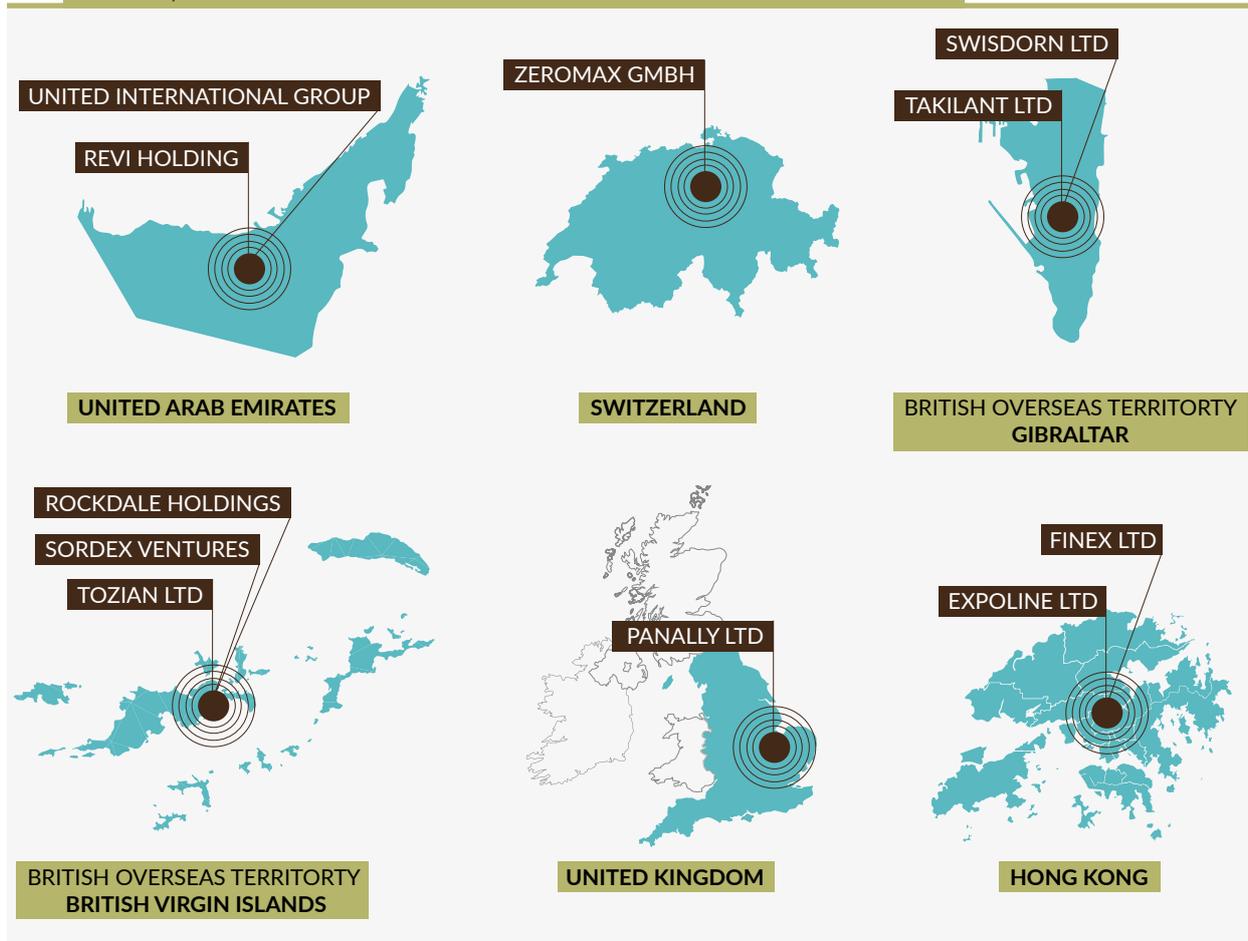
89 Declaration of Farhod Inogambaev. *ROZ Trading Ltd. v. Zeromax Group, Inc.*, Case 1:06-cv- 01040-CKK, para. 20 (D.D.C. December. 8, 2006).

90 *Ibid*, para. 21.

on Inogambaev's allegation, arguing 'Zeromax is essentially one of the facades behind which Gulnara Karimova continues to tighten her grip on any and

all available sources of income in the country by any means she deems necessary, with little or no regard for legal niceties'.⁹¹

22 Key offshore entities linked to Gulnara Karimova⁹²



Before we examine Karimova's entry into the telecommunications sector, from which she is said to have extracted almost US\$1 billion,⁹³ it is worth

touching upon other serious allegations levelled against Zeromax in civil litigation and international arbitration.

⁹¹ C. Batkin, 'Lowering the Bar', *Foreign Policy*, 20 November 2009, <http://foreignpolicy.com/2009/11/20/lowering-the-bar/> (accessed 29 November 2016).

⁹² Mannheimer Swartling, 'Rapport till styrelsen i TeliaSonera AB: Har TeliaSoneras investering i en 3G-licens tillsammans med frekvenser och nummerserier i Uzbekistan år 2007 och därefter inneburit att företrädare för TeliaSonera gjort sig skyldig till korruptionsbrott eller penningtvätt?', *OCCRP*, https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Telecoms_18.pdf; Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, para. 50 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

⁹³ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al.*, Case No. 1:15-cv-05063, para. 2 (S.D.N.Y. June. 29, 2015); Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al.*, Case No. 1:16-cv-01257, para. 2 (S.D.N.Y. Feb. 18, 2016).

3.3 Tea and mining

Until it was liquidated in 2010, Swiss multinational, Zeromax GmbH, was one of Uzbekistan's largest 'foreign' investors, with a substantial interest in natural resources, including oil, gas and minerals, in addition to wheat, cotton, textiles, sugar, cooking oil, food processing, and cement factories. The company enjoyed a prolific rise following its establishment in 2001. It is claimed to have "muscled" into some of the country's most lucrative sectors, causing disquiet among business and political elites within Uzbekistan, Russia and Germany. However, the first company to direct serious allegations against Zeromax, was the tea importer, Interspan Distribution Corporation.⁹⁴

Court documents reveal that Interspan was a family company owned and administered by US businessman, Eric Johnson, along with Uzbek national, Emir Kiamilev. Kiamilev's father Eskender, and Johnson's brother-in-law, Mikhail Matkarimov, helped run Interspan on the ground in Uzbekistan. By 2005 the company evidently controlled 30% of Uzbekistan's packaged tea market.⁹⁵

However, in Uzbekistan a growing market share can be a mixed blessing. While it may contribute to improved economies of scale and investor returns, it increases the company's visibility, with the related risks personnel or family members will be held to ransom, or the business expropriated, unless well protected through the solicitation of payments to senior regime figure.

On 13 February 2006 this risk materialised for Interspan when 'hooded men with machine guns stopped the vehicle in which Eskender Kiamilev – the father of Emir Kiamilev, one of Interspan's principals – was travelling'.⁹⁶ In addition, 'armed government agents also entered Interspan's offices and warehouses in Tashkent and demanded all of Interspan's physical property, including a large inventory of tea'.⁹⁷ Interspan employees were

arrested, threatened with torture and forced to sign statements incriminating Eskender Kiamilev.⁹⁸ This type of state organised repertoire is commonly employed in Uzbekistan when expropriating businesses, or extorting payments from its owners.⁹⁹

From Interspan's perspective, this was now a hostage negotiation involving a criminal organisation, the Uzbek state.¹⁰⁰ The company's insurer, Liberty, was contacted. They instructed Interspan to liaise with a crisis response team, Corporate Risk International (CRI), who specialises in the areas of kidnap, ransom, extortion and detention.

CRI coordinated its response through a senior business figure in Uzbekistan, who possessed intelligence sources within the state. It advised Interspan: 'Tea is currently considered to be the monopoly of the state. The Samarqand Tea Factory is the primary raw tea processor and monopoly supported by the state and has drawn the interest of the first family [the Karimovs]'.¹⁰¹ The prognosis for Interspan and its detained manager was not good: '[T]he best case scenario is to see him [Kiamilev] classified as a persona non grata and deported, with a complete loss of all business holdings in Uzbekistan'.¹⁰²

⁹⁴ Memorandum and Order. *Interspan Distribution Corp. v. Liberty Insurance Underwriters, INC.*, Case No. 4:07-cv-1078 (S.D. Tex. Aug. 21, 2009).

⁹⁵ Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07-cv- 1078, para. 32 (S.D. Tex. March 30, 2007).

⁹⁶ *Ibid.*, para. 65.

⁹⁷ *Ibid.*

⁹⁸ *Ibid.*, para. 77.

⁹⁹ Interviews conducted with senior business figures, see section 1.2.

¹⁰⁰ Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07- cv-1078, para. 97 (S.D. Tex. March 30, 2007).

¹⁰¹ *Ibid.*, para. 76.

¹⁰² Memorandum and Order. *Interspan Distribution Corp. v. Liberty Insurance Underwriters, INC.*, Case No. 4:07-cv-1078, p.21 (S.D. Tex. Aug. 21, 2009).

Unexpectedly, Eskender was released on 21 February 2006 after suffering heart problems.¹⁰³ This surprise act of clemency was linked to lobbying from the US Embassy, and certain high level connections Eskender enjoyed as a former Soviet diplomat. The respite was short-lived. Three days later the wife of Mikhail Matkarimov – Interspan’s Uzbek manager – was abducted.¹⁰⁴ Interspan claim Mikhail then surrendered ‘himself to the government agents who Interspan was advised were operating under Gulnara Karimova’s direction’.¹⁰⁵ Initially Matkarimov was accused of economic crimes.¹⁰⁶ Prosecutors later linked him to drug trafficking and terrorism.

During ransom negotiations with the Uzbek state, prosecutors pursue their monetary claim by offering to drop the more serious charges, in return for a payment. In effect, this means victims will serve a short period of custody for economic crimes, before being given a Presidential amnesty.

In this instance, contacts inside the Tashkent prosecutor’s office, and the Uzbek business community, were drawn on by CRI to uncover the reasons behind this attack on Interspan and its management.

It was alleged that this was an expropriation effort, directed by those connected with Zeromax. This evidently included the former Deputy Prime Minister, Mirabror Usmanov, the President’s daughter, Gulnara Karimova, and US businessman, Harry Eustace Snr. According to CRI’s business informant:

Harry is the “whiteman” face of Gulnara and her investments. Gulnara is the “Brain,” Usmanov is the “Muscle and experience” and Harry is the “Front and buffer.” Be very careful if you choose to contact him [Harry Eustace Snr]. If I were to contact him I would limit the conversation to informing him that you suspect he and ZeroMax are behind all the events which are going on now and you consider them to be financially and legally responsible for all your losses. He has no sympathy for anyone except himself and his son who is often here in Tashkent. Treat any encounter with him as a “dance with the cobra”.¹⁰⁷

The team alleged to be working with Karimova, in this instance, was an influential one. According to the International Crisis Group, Deputy Prime Minister Usmanov controlled ‘much of [Uzbekistan’s] retail trade and import/export operations’ including the ‘Ardus chain of supermarkets’.¹⁰⁸ After leaving government in 2005, Usmanov has gone on to become a senior sports official, taking up positions as President of the Uzbek Football Federation, National Olympic Committee,¹⁰⁹ and Central Asian Football Federation.¹¹⁰

Karimova’s alleged “frontman”, Harry Eustace Snr, served as a senior adviser to Zeromax GmbH between 2002 and 2008.¹¹¹ In addition he acted as Director (1999-2008), then Emeritus Chair (2008-2010) of the American-Uzbekistan Chamber of Commerce, an influential body with strong Uzbek government and US State Department connections.¹¹² His son, Eustace Jnr, served as Zeromax’s Vice President for Business Development

¹⁰³ Ibid, p.25.

¹⁰⁴ Ibid, p.28; Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07-cv-1078, para. 82 (S.D. Tex. March 30, 2007).

¹⁰⁵ Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07- cv-1078, para. 84 (S.D. Tex. March 30, 2007).

¹⁰⁶ Ibid, para. 86.

¹⁰⁷ Ibid, para. 103.

¹⁰⁸ International Crisis Group, ‘Uzbekistan’s Reform Program: Illusion or Reality?’, *Europe and Central Asia Briefing*, 2003, <https://www.crisisgroup.org/europe-central-asia/central-asia/uzbekistan/uzbekistans-reform-program-illusion-or-reality> (accessed 29 November 2016).

¹⁰⁹ FIFA, ‘Uzbekistan ready to make more history’, *FIFA.com*, 9 January 2013, <http://www.fifa.com/live-scores/news/y=2013/m=1/news=uzbekistan-ready-make-more-history-1980096.html> (accessed 1 February 2017).

¹¹⁰ UzReport, ‘Mirabror Usmanov elected the President of Central Asian Football Association’, *UzReport Information Agency*, 23 February 2015, http://sport.uzreport.uz/news_e_129393.html (accessed 1 February 2017).

¹¹¹ LinkedIn, ‘Profile: Harry Eustace, Sr.’, *LinkedIn.com*, [website], <https://www.linkedin.com/in/harry-eustace-sr-57609012> (accessed 1 February 2017).

¹¹² Ibid.

(2002-2006), and then as Vice President Corporate Development and Investor Relations at Oxus Gold, a company that will be examined in more detail shortly.¹¹³

Eustace Snr and Jnr went on to establish US firm, FMN Logistics. Notably the company won a lucrative line haul trucking contract with the US army's northern distribution network in Afghanistan during 2010, which was routed through Uzbekistan. It was alleged at the time that FMN Logistics had acted as a US subsidiary of Zeromax.¹¹⁴ For instance, leaked emails obtained by Eurasianet indicated close links between the two companies,¹¹⁵ while an early FMN Logistics sales presentations boasted 'FMN Logistics is the U.S. small business contracting arm of Zeromax'.¹¹⁶ Eustace Jnr, however, denied any link between the two companies, while disassociating his family from Karimova.¹¹⁷

Nevertheless, in the case of Interspan's tea business, the company's primary concern was the alleged role being played by Karimova, whose position of centrality within government, and ambitious reputation, made her a significant threat. Indeed, it was CRI's view that, 'the whole process surrounding Misha's [Mikhail Matkarimov] arrest is illegal' but they added,

we must understand we are in a country where there [is] only one law – 'The law of the lord of the manor.' The prosecutor is working only on the basis of instructions from someone who is in power and they could care less about the

consequence of not following legal procedures. Who is going to punish them? No one!!!! Misha is just a hostage to be used to extract the maximum from you and the rest of the family.¹¹⁸

On 11 August 2006, Matkarimov was successfully convicted of various economic crimes. His defence attorney alleges that this occurred despite 'discrepancies in testimony and the lack of any legitimate evidence'.¹¹⁹ Coupled to this CRI allege that 'Gulnara Karimova and the government agents that she directed, utilised torture, and threats of torture, to coerce false statements from witnesses to support the charges against Mr. Matkarimov and Interspan'.¹²⁰

Matkarimov's sentence, relatively speaking, was light. It included three years probation, and a US\$10,000 fine.¹²¹ Critically, however, the judgement confirmed that Interspan's seized property would not be returned.¹²² According to Interspan, their assets 'ultimately were taken over by companies reported to be controlled by Gulnara Karimova and her business associates'.¹²³

Less controversial allegations were later levied against Zeromax by British mining company, Oxus Gold. Led by an experienced outfit of mining industry specialists, Oxus had been involved in developing two ore deposits in Uzbekistan. After having navigated the complex protocols associated with investing in Uzbekistan, and then anchoring the group's capital in- country, Oxus began experiencing operating difficulties.¹²⁴

¹¹³ LinkedIn, 'Profile: Harry F. Eustace IV', *LinkedIn.com*, [website], <https://www.linkedin.com/in/harryeustaceiv> (accessed 1 February 2017).

¹¹⁴ K. Silverstein, 'Is Pentagon in Bed with "Queen of the Uzbeks"?' *Harper's Magazine*, 25 March 2010, <http://harpers.org/blog/2010/03/is-pentagon-in-bed-with-queen-of-the-uzbeks/>, (accessed 29 November 2016).

¹¹⁵ J. Kucera, 'Setting the Record Straight, Again, on the NDN and the Karimovs', *EurasiaNet*, 16 December 2010, <http://www.eurasianet.org/node/62582> (accessed 29 November 2016).

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.*

¹¹⁸ Complaint. *Interspan Distribution Corp. v. Liberty Insurance Underwriters INC.*, Case No. 4:07- cv-1078, para. 97 (S.D. Tex. March 30, 2007).

¹¹⁹ *Ibid.*, para. 111.

¹²⁰ *Ibid.*

¹²¹ *Ibid.*, para. 112.

¹²² *Ibid.*

¹²³ *Ibid.*, para. 113.

¹²⁴ Notice of Arbitration, *Oxus Gold PLC v. The Republic of Uzbekistan et al* (Arbitral Tribunal, Aug. 31, 2011).

These difficulties began when Cabinet of Minister decrees, delivered on 1 May 2006,¹²⁵ and 7 July 2006,¹²⁶ revoked a series of tax and currency control exemptions enjoyed by Oxus Gold, a move which the company complained would cost it US\$43 million in 2006/07.¹²⁷ Then on 11 July 2006, the State Tax Committee conducted an audit to verify the company's compliance with tax, currency and customs laws.¹²⁸ A report was published on 18 August 2006, by the State Tax Committee and the State Customs Committee, which alleged Oxus, through its Uzbek subsidiary, had breached health and safety codes, gold and silver recovery rates regulations, in addition to tax, customs and currency laws.¹²⁹ The total penalty levied for these violations was US\$225 million.¹³⁰

While Oxus strenuously rejected the substance of the allegations against it, on 7 September 2006, the State Tax Inspectorate of Zarafshan City recommended enforcement proceedings for non-payment of tax in the Navoi Regional Economic Court.¹³¹ Additionally, the Central Bank placed currency conversion restrictions on Oxus.¹³² A month later, the Navoi Regional Economic Court issued collection orders against Oxus assets, allegedly without informing their Uzbek subsidiary, 'let alone allowing it an opportunity to contest or challenge them'.¹³³

Oxus' fortunes abruptly changed in December 2006, which the company links to an intervening event. On 30 November 2006, a 'Share Subscription Agreement' was signed with Zeromax GmbH.¹³⁴ This gave the latter concern a 16% stake in Oxus at £.21 per share, and the right to appoint a Non-Executive Director to the Oxus Board.¹³⁵ In the same month Zeromax Vice President, Harry Eustace Jnr, left his position to take up a Vice President post at Oxus Gold.¹³⁶ In 2008 Zeromax's CEO, Miradil Djalalov, was appointed Oxus Non-Executive Director.¹³⁷

Shortly after Zeromax acquired a stake in Oxus Gold, the Navoi Regional Economic Court's decision was largely overturned by the Board of Appeal of the Navoi Regional Court and then the Tashkent Supreme Court. Oxus Gold observes: 'Given that the Uzbek courts act at the behest of the executive branch, Oxus can only assume that the decision by the Navoi Regional Economic Court and the Tashkent Supreme Court to refuse to uphold most of the taxes, duties, fines and penalties levied against [our subsidiary] AGF stemmed from an ownership interest Zeromax GmbH acquired in Oxus in November 2006'.¹³⁸ Oxus continues: 'As a Swiss- registered company, Zeromax GmbH never disclosed its real ownership. While formally owned by an Uzbek citizen identified as Miradil Djalalov, it is widely speculated that the elder daughter of President Karimov of Uzbekistan, Gulnara Karimova, represented the majority shareholder in Zeromax GmbH'.¹³⁹

¹²⁵ Final Award. *Oxus Gold PLC v. The Republic of Uzbekistan et al*, para. 478 (Arbitral Tribunal, Dec. 217, 2015).

¹²⁶ *Ibid*, para. 479.

¹²⁷ *Ibid*, para. 480.

¹²⁸ *Ibid*, para. 482.

¹²⁹ *Ibid*, para. 484.

¹³⁰ *Ibid*.

¹³¹ *Ibid*, para. 487.

¹³² *Ibid*, para. 488.

¹³³ Final Award. *Oxus Gold PLC v. The Republic of Uzbekistan et al*, para. 491 (Arbitral Tribunal, Dec. 217, 2015).

¹³⁴ *Ibid*, para. 501.

¹³⁵ *Ibid*.

¹³⁶ LinkedIn, 'Profile: Harry F. Eustace IV', *LinkedIn.com*, [website], <https://www.linkedin.com/in/harryeustaceiv> (accessed 1 February 2017).

¹³⁷ Bloomberg, 'Executive Profile: Miradil S. Djalalov', *Bloomberg: Company Overview of Zeromax GmbH*, February 02, 2017 12:42 PM ET [last updated], <http://www.bloomberg.com/research/stocks/private/person.asp?personid=40085257&privcapid=45119012> (accessed 1 February 2017).

¹³⁸ Notice of Arbitration. *Oxus Gold PLC v. The Republic of Uzbekistan et al*, para. 50 (Arbitral Tribunal, Aug. 31, 2011).

¹³⁹ *Ibid*.

The examples of Roz Trading, Interspan Distribution Corporation and Oxus Gold would appear to evidence a consistent pattern of conduct relating to entities alleged to be closely linked with Karimova. However, it is important to note, that even during this early period of commercial ascendance, questions were raised publicly over Karimova's potential involvement in illicit activities.

For instance, the defection of her financial advisor to the United States, facilitated an exposé published in *The Financial Times*, on 18 August 2003. Written by David Stern, it shone a light on the activities of Revi Holdings and United International Group, including irregular consultancy fees,¹⁴⁰ and discounted acquisitions of 'prime industrial assets' within Uzbekistan.¹⁴¹ Crucially, Stern drew particular attention to Karimova's substantial international financial activity. For instance, he claimed that her HSBC account in the British Overseas Territory of Jersey received a payment of US\$362,000 on 10 March 2002, while an account held with the US multinational, Citibank, received US\$950,000 and US\$800,000 on 25 March and 13 April 2002, respectively.¹⁴² Stern also alleged that a HSBC account established in the name of her 10-year-old son, Islam Karimov, contained a balance of US\$1.4 million.¹⁴³

The airing of this information did not trigger any notable reaction from regulators or prosecutors. Both banks mentioned by Stern, however, were later found to be complicit more generally in money laundering activities for organised crime groups.¹⁴⁴

Before we go on to consider Karimova's role in Uzbekistan's telecommunications sector, it is worth examining the patterns observed in court documents and witness testimony, provided during the Roz Trading/Coca-Cola, Interspan and Oxus Gold cases. Key observations include:

- 1 Karimova is characterised as an actor enjoying extensive reach within the government of Uzbekistan. This reach is linked to the strong leverage she has with senior decision makers in government, the security apparatus, and business, as daughter of President Karimov. Through these ties, Karimova enjoyed access to high-level envoys and fixers who could implement her instructions, within a wide range of state agencies, including government departments, regulatory bodies, prosecutors, the courts and the SNB.
- 2 Karimova did not enact these activities alone. Around her was a core and non-core set of actors, each of which had a structured role in group activities. Her network included advisers, managers, fixers, proxies, and envoys. As a result, the label syndicate may be applied, owing to the existence of a solidified network, with a division of labour, operational repertoire, and chains of command, that endured over an expansive period.
- 3 It is consistently alleged that Karimova set up extensive corporate and financial machinery in Uzbekistan, and offshore, to facilitate her business interests. This organisational structure, it appears, rested on the ties she established with experienced and technically proficient business

140 D. Stern, *Financial Times*, para. 28

141 Ibid, para. 26.

142 Ibid.

143 Ibid.

144 Both banks have been the subject of US based prosecutions. For instance, HSBC was fined US\$1.9 billion, for its role laundering \$881 million in drug trafficking proceeds, linked to the Sinaloa Cartel in Mexico and the Norte del Valle Cartel in Colombia. It was also found that the bank 'knowingly and willfully' moved illegally 'hundreds of millions of dollars through the U.S. financial system on behalf of banks located in Cuba, Iran, Libya, Sudan, and Burma, and persons listed as parties or jurisdictions sanctioned by the Office of Foreign Assets Control of the United States Department of the Treasury in violation of U.S. economic sanctions' (Deferred Prosecution Agreement (Statement of Facts). *United States of America v. HSBC Bank USA, N.A.* Case 1:12-cr-00763-ILG, para. 52 (E.D.N.Y, December, 10, 2012)). Similarly, Citibank was fined US\$925 million by the US Department of Justice, after the bank 'plead guilty to felony charges', for its part in a broader conspiracy 'to manipulate the price of U.S. dollars and euros exchanged in the foreign currency exchange (FX) spot market' (US Department of Justice, 'Five Major Banks Agree to Parent-Level Guilty Pleas', *Justice News*, 20 May 2015, <https://www.justice.gov/opa/pr/five-major-banks-agree-parent-level-guilty-pleas> (accessed 1 February 2017)). It paid a further '\$140 million in penalties to settle state and federal money- laundering probes', after the Los Zetas cartel used Citibank's Mexican subsidiary to launder the proceeds of crime (A. Katz and D. Campbell., 'Inside the Money Laundering Scheme That Citi Overlooked for Years', *Bloomberg*, 20 November 2015, www.bloomberg.com/news/articles/2015-11-20/inside-the-money-laundering-scheme-that-citi-overlooked-for-years (accessed 1 February 2017); E.S. Reckard, 'L.A.'s Banamex to close, pay \$140 million in money laundering probe', *LA Times*, 22 July 2015, www.latimes.com/business/la-fi-citi-banamex-money-laundering-20150722-story.html (accessed 1 February 2017)).

people both in Uzbekistan and abroad, who acted as expert advisers and fixers.

- 4 The Karimova syndicate, it is claimed, systematically employed coercion and violence, administered through a range of state agencies, including the Presidential Security Service, SNB, and Interior Ministry. Additionally, the Prosecutor's Office and Courts were said to be complicit in kidnap and ransom activities. The alleged violence tended to focus on employees and family members of targets, in a bid to prompt the latter's compliance, or to expropriate company assets.
- 5 The Karimova syndicate's business model appears to be rooted in a series of practices. First, the evidence presented indicates Karimova positioned herself as a sector gatekeeper, whose protection had to be purchased by major market actors. Second, it appears by setting up rackets, Karimova was also able to dictate the terms of transactions between her companies and market actors,

leading to significant inflated profits. Third, when Karimova wished to enter an industry, or remove rivals, it is claimed expropriation was employed, using state instrumentalities.

- 6 Testimony provided by Karimova's adviser, backed by documentary records, suggests the syndicate's activity was transnational in character. Not only did we observe the involvement of a major international brand in bribery allegations, it is also claimed that the Karimova syndicate employed international corporate entities to prosecute its affairs. Initially this took place through offshore vehicles legally registered in Karimova's name. However, it is suggested Karimova then circumvented the risk of exposure, by hiding her beneficial interest behind proxies. It is also suggested that high volume financial transactions initiated by Karimova were funnelled through a series of offshore accounts, administered through banks which US authorities later found to be complicit in money laundering for organised crime syndicates.

23 Uzbek state agencies alleged to have acted on the instructions of Karimova



These patterns will again appear in the records and evidence disclosed in the civil forfeiture actions, prosecutions and media exposés, which centre on Karimova's role in Uzbekistan's telecommunications industry. It is to this matter which we will now turn.

3.4 Establishing a telecommunications foothold and transnational network

While an embryonic mobile telecommunications sector had emerged in Uzbekistan during the 1990s, by 2003 when the Karimova syndicate is alleged to have begun establishing a political monopoly over the market, consumers remained under-served. For instance, BMI Research claimed in 2007, that with mobile penetration below 10% in a country of 27 million, ‘consumer demand for mobile services ... is quite simply, rampant’.¹⁴⁵ While more recently, the Organized Crime and Corruption Reporting Project (OCCRP) observed, ‘everyone wanted a piece of the Uzbek market, which eventually grew to 25 million subscribers by 2012’.¹⁴⁶

The Karimova syndicate’s initial foothold in the industry, took place through US-Uzbek joint venture, Uzdunrobita (meaning ‘gateway to the world’). Uzdunrobita was the invention of six US investors from Perry, Georgia. The unlikely consortium included ‘a certified public accountant ... a dentist, an eye doctor, an insurance man, an engineer and a stockbroker’.¹⁴⁷ One of the lead investors, was Brian Bowen, who would go on to become Karimova’s adviser.¹⁴⁸

A *Wall Street Journal* feature on the joint-venture notes the six US entrepreneurs shunned ‘detailed business blueprints filled with minutia ... [and] simply went looking for a big city with bad phone service’.¹⁴⁹ They found it in Tashkent. Through the corporate investment vehicle, International Communications Group, a venture with the government of Uzbekistan was negotiated after the Uzbek Minister for Communications was taken on a successful US tour, which included a meeting with Georgian grandee, former President Jimmy Carter.¹⁵⁰

The company’s early success was attributed, in part, to its general director, Yuriy V. Snezhkov. Brian Bowen noted, ‘I don’t have any experience dealing with the KGB, the mafia, the family connections in the bureaucracy here’.¹⁵¹ Snezhkov, on the other hand, had both the local literacy and essential connections, including with the Communications Minister who was his ‘boyhood pal’.¹⁵² The *Wall Street Journal* observes, it was Snezhkov ‘who persuaded Mr. Bowen to give free phones to Uzbekistan President Islam Karimov and to government ministers. Eventually, everyone in the government wanted one’.¹⁵³ He also ‘pressed friends at [the state owned] Uzbek Air, the nation’s airline, to buy \$160,000 worth of phones. That gave Uzdunrobita an office in Tashkent, a desk, a car and a couple of Uzbek staffers’.¹⁵⁴ By 1996, we are told, Uzdunrobita had ‘7,000 subscribers, 240 employees and could be worth as much as \$100 million by industry estimate’.¹⁵⁵

¹⁴⁵ BMI Research, ‘Uzbekistan Most Attractive Telecoms Market in Central Asia’, *BMI Research: Emerging Europe Telecommunications Insights*, 2007. Available from: Nexis (accessed 29 November 2016).

¹⁴⁶ M. Patrucic, ‘How The President’s Daughter Controlled Telecom Industry’, *OCCRP*, 22 March 2015, <https://www.occrp.org/en/corruptistan/uzbekistan/gulnarakarimova/presidents-daughter-controlled-telecom-industry>, (accessed 29 November 2016).

¹⁴⁷ J. Guyon, ‘A Southern Group Connects Uzbekistan Via Cellular Service’, *The Wall Street Journal*, 21 June 1996, <http://www.wsj.com/articles/SB835311592623004500> (accessed 29 November 2016). ¹⁴⁸ Witness Statement of Farhod Inogambaev, *ROZ Trading Ltd et al. v. The Coca-Cola Export Corp. et al*, Case No. GZ SCH-4986 (Int’l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006), para. 33.

¹⁴⁹ J. Guyon, ‘A Southern Group Connects Uzbekistan Via Cellular Service’, *The Wall Street Journal*, 21 June 1996, <http://www.wsj.com/articles/SB835311592623004500> (accessed 29 November 2016). ¹⁵⁰ *Ibid.*

¹⁵¹ *Ibid.*

¹⁵² *Ibid.*

¹⁵³ *Ibid.*

¹⁵⁴ *Ibid.*

¹⁵⁵ *Ibid.*

According to Karimova's former financial adviser, her syndicate gained a sizable foothold in Uzdurobita during 2001, using extortion and misappropriation. Inogambaev observes:

... Uzdurobita, a joint venture between the Uzbek Government and International Communications Group, an Atlanta based company ("ICG"), [at the time] was the largest cellular telecommunications company in Uzbekistan. In December 2001, Ms. Karimova and I met with Shahid Feroz, the President of ICG, and Begzod Ahmedov, the Director of Uzdurobita. Ms. Karimova demanded a 20% stake in Uzdurobita from ICG, and in exchange she would provide lobbying and consulting services. She made it clear that, without her support, Uzdurobita would be destroyed. So, in late December 2001, Shahid Feroz agreed to transfer 20% of the ownership in Uzdurobita to Revi Holdings, Ms. Karimova's off-shore company. Through these explicit threats, Ms Karimova had acquired a large stake in a multimillion dollar company without spending a penny.¹⁵⁶

Uzdurobita's founder, Brian Bowen, is accused of then becoming Karimova's accomplice, during subsequent attempts to expropriate Roz Trading's stake in CCBU.¹⁵⁷ It is not clear whether Bowen's involvement was voluntary, or coerced.

Karimova is said to have expanded her stake in Uzdurobita during February 2002. Inogambaev reports: 'Ms. Karimova directed the Government of Uzbekistan to transfer 31% of the State's ownership in Uzdurobita to Revi Holdings, at no charge. The Uzbek State Property Committee acquiesced to Ms. Karimova's demands'.¹⁵⁸ Like Zeromax, Uzdurobita dismissed accusations of Karimova's involvement as 'just a rumour'.¹⁵⁹ However, in this case *The Financial Times* was able to independently verify that this acquisition had indeed taken place.¹⁶⁰

Having become a majority shareholder, Inogambaev claims Karimova began embezzling company funds through sham agreements. He recalls: 'Once she controlled the company, she began directing marketing and consulting contracts to herself. Through these sham contracts, where no services were actually provided, she stole millions of dollars and deposited this money into her personal account'.¹⁶¹ One example cited in *The Financial Times* was a payment of US\$330,000 to Revi Holdings, for 'consultation services of the contract without number on 31.07.2002'.¹⁶² This mimics similar transactions alleged to have taken place between Coca-Cola and Revi Holdings.

The Financial Times also reports that Karimova received a \$1m payment from Huawei Technology, a Chinese telecommunication firm that had been awarded a lucrative contract by Uzdurobita to set up a GSM network outside Tashkent. The paper reports:

As part of the contract, Huawei hired Global Communications, a Caribbean offshore company, paying it just over \$1m for GSM equipment. Global, however, turned around and hired Revi [Holding], depositing the same amount into Revi's bank account. Bank documents show the amount being passed on in November 2002, first from Huawei to Global's Citibank account in Dubai, and then to Revi Holdings.¹⁶³

In total, it is estimated that the Karimova syndicate 'siphoned some \$20 million out of Uzdurobita using such fraudulent invoices'.¹⁶⁴

Having established a foothold in an adolescent mobile telecommunications industry, Karimova it appears was able to employ her position of centrality and prestige within the Uzbek state to construct a political monopoly over the sector. Market access, it appears from the evidence, now depended on her

¹⁵⁶ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al. v. The Coca-Cola Export Corp. et al*, Case No. GZ SCH-4986, para. 20 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

¹⁵⁷ *Ibid*, para. 37.

¹⁵⁸ *Ibid*, para. 21.

¹⁵⁹ D. Stern, *Financial Times*, para. 21.

¹⁶⁰ *Ibid*, para. 4.

¹⁶¹ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al. v. The Coca-Cola Export Corp. et al*, Case No. GZ SCH-4986, para. 21 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006)

¹⁶² D. Stern, *Financial Times*, para. 22.

¹⁶³ *Ibid*, para. 24.

¹⁶⁴ S. Ostrovsky, 'MTS Pays Premium to Uzbek "Princess"', *The Moscow Times*, 19 July 2004, old.themoscowtimes.com/news/article/tmt/229547.html/ (accessed 29 November 2016).

support, which could be purchased at a premium. An example of this may be observed with the entry of the telecommunications multinational, Vimpelcom, into the Uzbek market during 2005,¹⁶⁵ a concern owned by Russian and Norwegian interests.

Vimpelcom sort to facilitate this entry through the purchase of Unitel from the Dutch company Silkway Holdings BV, for US\$200 million.¹⁶⁶ At the time, Unitel had approximately 300,000 subscribers, making it the second largest service provider in Uzbekistan.¹⁶⁷ However, to safely operate in Uzbekistan, it was made clear that Vimpelcom would need to purchase Buztel, an Uzbek telecommunication firm with a mere 2,700 subscribers, for the sum of US\$60 million.¹⁶⁸ At a meeting of Vimpelcom's Finance Committee, the business case for spending \$60 million on a minor player was questioned, given that the capital could be more prudently spent on developing Unitel's network.¹⁶⁹ It was also queried whether this arrangement might damage the company's international standing, given it risked violating the US *Foreign Corrupt Practices Act*.¹⁷⁰

In response to the committee's concerns, Vimpelcom management made clear that entry into the Uzbek market depended on the backing of a beneficial owner standing behind Buztel, who was anonymously referred to as 'the partner'.¹⁷¹ Management informed the committee: 'Due to certain political reasons (and this message should

be taken by us as is), Buztel should be considered as an entry ticket into [the] Uzbekistan market and the buyer of Buztel would be considered a preferred buyer of Unitel'.¹⁷² The committee was also told that it is 'more important to follow the political requirements suggested for entry into the market versus [the] questionable risk of acquisition of Unitel as [a] standalone'.¹⁷³ Indeed were Vimpelcom to flout political requirements for market entry in Uzbekistan, management warned the company would be placed 'in opposition to a very powerful opponent and [this] bring[s] [the] threat of revocation of licenses after the acquisition of Unitel [as a] stand-alone'.¹⁷⁴ This is just one of several examples, grounded in corporate records and court documents, which strongly suggests Karimova had successfully established a racket in the cellular telecommunications sector, which enabled her syndicate to extract rents from foreign investors.

To organisationally enact this gatekeeper role, it appears that Karimova set up an intricate transnational corporate and financial structure – almost certainly using experienced advisers – expertly designed to conceal her involvement, and the illicit transactions being prosecuted. The primary vehicle employed by Karimova – which appears to have been the successor to Revi Holdings – was Takilant Limited.¹⁷⁵ Incorporated on 2 January 2004 in the British Overseas Territory of Gibraltar, Takilant was the parent company for Karimova's diverse

¹⁶⁵ VimpelCom 'VimpelCom Annual Report: 2005', *VimpelCom: Investor Relations*, <https://www.vimpelcom.com/Global/Files/Reports/2005%20annual%20report.pdf> (accessed 1 February 2017).

¹⁶⁶ Deloitte, 'Review - Ownership VimpelCom: Telenor ASA', *Telenor*, 2016, https://www.telenor.com/wp-content/uploads/2016/04/Deloitte-Report_Telenor_290416_FINAL.pdf (accessed 29 November 2016).

¹⁶⁷ Complaint. *United States Securities and Exchange Commission v. VimpelCom Ltd*, Case No. 1:16-cr-00137-ER, para. 18 (S.D.N.Y. Feb. 18, 2016).

¹⁶⁸ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 39 (S.D.N.Y. June. 29, 2015). See also which states 2,500 Buztel subscribers: Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 18 (S.D.N.Y. Feb. 18, 2016).

¹⁶⁹ Complaint. *United States Securities and Exchange Commission v. VimpelCom Ltd*, Case No. 1:16-cr-00137-ER, para. 21 (S.D.N.Y. Feb. 18, 2016).

¹⁷⁰ *Ibid*, para. 21.

¹⁷¹ *Ibid*, para. 19.

¹⁷² *Ibid*, para. 20.

¹⁷³ *Ibid*, para. 20.

¹⁷⁴ *Ibid*, para. 20.

¹⁷⁵ M. van Turenhout., 'Keynote Speech – VimpelCom Prosecutor (Public Prosecution Service, The Netherlands)', *delivered at the 2nd Annual GIR Live DC*, 16 February 2017.

portfolio of interests in Uzbekistan, which included, airport duty free, real estate investment, medical and diagnostic services, express payment systems, entertainment, tourism, aviculture, and of course telecommunications.¹⁷⁶

On paper, Takilant's sole shareholder/director was Gayane Avakyan, an Armenian national resident in Tashkent.¹⁷⁷ At the time of incorporation, Avakyan was just 20 years old.¹⁷⁸ She is alleged to have been a 'close associate' of Karimova,¹⁷⁹ and a director at her fashion business, 'House of Style'.¹⁸⁰

The other major vehicles employed by the Karimova syndicate were Swisdorn Limited and Expoline Limited.¹⁸¹ Swisdorn was incorporated on 3 July 2003 in Gibraltar.¹⁸² Its sole shareholder/director was Rustam Madumarov.¹⁸³ Born on 26 March 1977, Madumarov is an Uzbek of Tajik ethnicity.¹⁸⁴

At the time Madumarov was resident in Tashkent.¹⁸⁵ In addition to being a member of the popular Uzbek pop-group, DADO, he was said to be Karimova's boyfriend.¹⁸⁶

Alongside Madumarov, the US Department of Justice claims that the head of Uzdunrobिता, Bekhzod Akhmedov, 'held power of attorney to conduct company and banking business for Swisdorn'.¹⁸⁷ He is also alleged to have enjoyed authority over Takilant's accounts held with the Swiss private bank, Lombard Odier.¹⁸⁸

The third company, Expoline Limited,¹⁸⁹ was incorporated in Hong Kong. Its owner/director, again, was Madumarov.¹⁹⁰

All three companies employed by the Karimova syndicate to mediate transactions in Uzbekistan's

¹⁷⁶ Mannheimer Swartling, 'Rapport till styrelsen i TeliaSonera AB: Har TeliaSoneras investering i en 3G-licens tillsammans med frekvenser och nummerserier i Uzbekistan år 2007 och därefter inneburit att företrädare för TeliaSonera gjort sig skyldig till korruptionsbrott eller penningtvätt?', *OCCRP*, https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Telecoms_18.pdf

¹⁷⁷ *Ibid*, Bilaga [Annex] 4.

¹⁷⁸ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780* at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited *AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 18 (S.D.N.Y. June. 29, 2015).

¹⁷⁹ *Ibid*.

¹⁸⁰ S. Bergman et al, 'TeliaSoneras "partner" - Karimova's closest confidant', *SVT*, 19 September 2012, <http://www.svt.se/ug/TeliaSoneras-partner-karimova-s-closest-confidant> (accessed 3 February 2017).

¹⁸¹ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780* at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited *AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 21A - 21B (S.D.N.Y. June. 29, 2015).

¹⁸² Registrar of Companies Gibraltar, 'Certificate of the Incorporation of a Company: Swisdorn Limited', *OCCRP*, 2 July 2003 (certified), https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Swisdorn_03.pdf (accessed 3 February 2017).

¹⁸³ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780* at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited *AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 21B (S.D.N.Y. June. 29, 2015).

¹⁸⁴ Companies House (UK), 'Rustam Madumarov: Odenton Management LTD Profile', *Companies House (UK)*, [website], <https://beta.companieshouse.gov.uk/officers/kOSLugOJdg7TfMB5x1-hCn6yICw/appointments> (accessed 13 February 2017).

¹⁸⁵ *Ibid*; Registry of Companies Gibraltar, 'Form of Annual Return of a Company having a share capital', *OCCRP*, 19 October 2004, https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Swisdorn_13.pdf (accessed 3 February 2017).

¹⁸⁶ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780* at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited *AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 19 (S.D.N.Y. June. 29, 2015).

¹⁸⁷ *Ibid*, para. 21B.

¹⁸⁸ SVT, 'TeliaSonera negotiated directly with the Karimov-regime', *SVT*, 12 December 2012, <http://www.svt.se/ug/TeliaSonera-negotiated-directly-with-the-karimov-regime> (accessed 3 February 2017).

¹⁸⁹ It appears a number of other offshore companies were used to manage Karimova's business interests, including Rockdale Holding, Sordex Ventures, and Tozian Services Corp, all incorporated in the British Virgin Islands, while a fourth offshore vehicle, Panally Limited was incorporated in England.

¹⁹⁰ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780* at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited *AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 21C (S.D.N.Y. June. 29, 2015).

telecommunications sector were situated in known secrecy jurisdictions, so named because corporate filings are notoriously opaque, and difficult to access, even for foreign governments. Nevertheless, it is claimed by the US Department of Justice,¹⁹¹ and other authorities,¹⁹² that in all three cases the beneficial owner of the company concerned was indeed Gulnara Karimova.

Connected to these companies were a range of offshore bank accounts. Initially, Karimova's companies conducted their business primarily through three banks. Two of which were the Latvian banks Aizkraukles¹⁹³ and Parex,¹⁹⁴ while a substantial amount of illicit proceeds went into Takilant's account held with the UK bank, Standard Chartered.¹⁹⁵ Later, Swiss bank Lombard Odier would take over as the primary offshore financial vehicle for Takilant.¹⁹⁶

It is important to add, that an early attempt was made to launder funds through an account held with Citibank UK in the name of Revi UK Limited.¹⁹⁷ It, however, was shut down by the bank after Karimova failed to adequately explain suspicious transactions.¹⁹⁸ In this case, the company holding the account was registered in Karimova's name, which may have heightened bank scrutiny. Subsequently the proceeds primarily went through accounts held by Takilant Limited. Nevertheless Takilant is a company registered in a known secrecy haven, and managed by a young Armenian woman, with links to Karimova.¹⁹⁹ Thus it is reasonable to ask why these tenuous transactions were not also subjected to heightened due diligence checks.

¹⁹¹ Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Case No. 1:15-cv- 05063, para. 21-22 (S.D.N.Y. June. 29, 2015).

¹⁹² E. Ronalds-Hannon and M. Patrucic, 'Swedish Telecom Took Shortcut in Central Asia', *OCCRP*, 29 December 2012, <https://www.occrp.org/en/investigations/1765-swedish-telecom-took-shortcut-in-central-asia> (accessed 3 February 2017); Muddy Waters Research, 'Open Letter: Directors of TeliaSonera AB', *Muddy Waters Research*, <http://www.muddywatersresearch.com/research/tlsn/mw-is-short-teliasonera/> (accessed 3 February 2017); Recht NL, 'Vonnis [Judgement]', Case No. 13 / 846004-14, *Recht NL*, Available at: <https://www.recht.nl/rechtspraak/uitspraak?ecli=ECLI:NL:RBAMS:2016:4520> (Court of Amsterdam, 20 July 2016).

¹⁹³ For example: Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 37 (S.D.N.Y. Feb. 18, 2016); Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Verified Complaint, Case No. 1:15-cv-05063, para. 85 (S.D.N.Y. June. 29, 2015).

¹⁹⁴ *Ibid*.

¹⁹⁵ Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 118 (S.D.N.Y. Feb. 18, 2016).

¹⁹⁶ *Ibid*, para. 122.

¹⁹⁷ Witness Statement of Farhod Inogambaev. ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al., Case No. GZ SCH-4986, para. 17 (Int'l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006).

¹⁹⁸ *Ibid*.

¹⁹⁹ Mannheimer Swartling, 'Rapport till styrelsen i TeliaSonera AB: Har TeliaSoneras investering i en 3G-licens tillsammans med frekvenser och nummerserier i Uzbekistan år 2007 och därefter inneburit att företrädare för TeliaSonera gjort sig skyldig till korruptionsbrott eller penningtvätt?', *OCCRP*, https://cdn.occrp.org/projects/corruptistan/documents/uzbekistan/Telecoms_18.pdf (accessed 30 November 2016).

24 Banking institutions allegedly employed by Karimova

 <p>HSBC</p> <p>BANK: HSBC HQ: UK BRANCH: Jersey</p> <p>PROSECUTED FOR CRIMINAL ACTIVITY</p>	 <p>Standard Chartered</p> <p>BANK: Standard Chartered HQ: UK BRANCH: Hong Kong</p> <p>PROSECUTED FOR CRIMINAL ACTIVITY</p>	 <p>citi</p> <p>BANK: Citibank HQ: US BRANCH: Dubai</p> <p>PROSECUTED FOR CRIMINAL ACTIVITY</p>	 <p>RIETUMU</p> <p>BANK: Rietumu Banka HQ: Latvia²⁰⁰</p>
 <p>ABL V</p> <p>BANK: Aizkraukles Banka HQ: Latvia</p>	 <p>PAREX BANKA</p> <p>BANK: Parex Banka HQ: Latvia</p>	 <p>LOMBARD ODIER</p> <p>BANK: Lombard Odier HQ: Switzerland BRANCH: Geneva</p> <p>PROSECUTED FOR CRIMINAL ACTIVITY</p>	 <p>UBP</p> <p>BANK: Union Bancaire Privée HQ: Switzerland BRANCH: Geneva</p> <p>PROSECUTED FOR CRIMINAL ACTIVITY</p>

Many of the initial payments, which the US Department of Justice has designated the proceeds of crime (foreign bribery), went to accounts in Latvia held by Swisdorn and Takilant. A former Latvian bank executive points to the permissive financial regime that exists in Latvia: 'Latvia is the offshore banking centre for the former Soviet

Union. Of the 21 banks licensed in Latvia, 16 are boutique offshore specialists and most are linked with notorious oligarchs'.²⁰¹ Furthermore, the same executive argues, 'published phone call transcripts clearly indicate that the Latvian Prosecutors Office is protecting this activity in exchange for bribes'.²⁰²

²⁰⁰ A whistleblower from the Latvian banking sector claims that the Prosecutors Office has turned a blind eye to financial crimes in return for bribes. See J. Christmas, 'Parex Bank fraud perpetrated by the Latvian Finance Ministry and EBRD against the IMF, EU, and World Bank', *Lawless Latvia*, 31 March 2011, <http://www.lawlesslatvia.com/wp-content/uploads/2012/03/EBRD-fraud-letter.pdf>.

²⁰¹ J. Christmas, 'Parex Bank fraud perpetrated by the Latvian Finance Ministry and EBRD against the IMF, EU, and World Bank', *Lawless Latvia*, 31 March 2011, <http://www.lawlesslatvia.com/wp-content/uploads/2012/03/EBRD-fraud-letter.pdf>.

²⁰² Ibid.

A range of independent audits, and whistle-blower accounts, have shed further light on the state of the industry in Latvia.²⁰³ One investigation conducted by Brown Rudnick LLP, on behalf of the Hermitage Fund – which led to a Latvian Financial and Capital Market Commission probe – found evidence of systemic money laundering. They allege that Russian criminal groups, in particular, have laundered money through a range of Latvian banks, which includes, notably, Aizkraukles Banka.²⁰⁴ Brown Rudnick observe, ‘our clients have discovered that funds held at and which moved through these [Latvian] accounts represent a portion of some US\$800 million in illicit proceeds generated in a criminal scheme involving the theft of funds from the Russian Treasury, as well as proceeds of similar crimes committed earlier, payments to corrupt Russian officials and members of their families involved in the scheme, and fraud’.²⁰⁵ The Latvian bank accounts, Brown Rudnick argue, were held in the name of shell companies incorporated in known secrecy havens such as the British Virgin Islands and Seychelles.²⁰⁶

Aizkraukles Banka, in particular, has been accused by a range of commentators as being one of the most significant players in Latvia’s booming offshore industry.²⁰⁷ It is well positioned to target Eastern Europe and Central Asia with offices in Russia,

Ukraine, Belarus, Kazakhstan, Azerbaijan, Tajikistan and Uzbekistan. Bowen and Galeotti claim ‘large portion of its business [is] in non-resident deposits and [it] has been implicated in several money laundering scandals’.²⁰⁸ For instance, investigative reports published on corruption and money laundering in Russia, Kyrgyzstan, and Moldova, have traced significant volumes of laundered money back to accounts held at Aizkraukles Banka.²⁰⁹

Serious allegations have also been levelled against Parex Banka. For example, former Head of the International Relations Group at Parex, John Christmas, claims his previous employer has acted as a significant spoke in international money laundering operations and tax evasion. Christmas states, ‘I gave a long list of material frauds to Ernst & Young and the FSA [UK Financial Service Authority] between 2004 and 2006. Both organisations informed me that they already knew that Parex was criminal and both ignored the fraud information’.²¹⁰ Christmas further claims, ‘I was told that 80% of deposits were non-residents and that these deposits were mostly coming from Parex representative offices in CIS [Commonwealth of Independent States] countries ... the purpose of these accounts was tax evasion’.²¹¹ He concludes, ‘half of the banks in Latvia today have reputations as boutique money launders’.²¹²

²⁰³ Brown Rudnick, ‘Hermitage Capital Management Limited/Notice of Suspected Money Laundering and Request for criminal investigation in respect of the violations of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance Request for criminal investigation and for issuance of asset freeze order for violation of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance’, *Brown Rudnick*, 30 July 2012, pp. 1 and 3;

G. Stack and A. Giga, ‘Latvian Banks Promote Money Laundering Companies’, *OCCRP*, 16 June 2016, <https://www.occrp.org/en/investigations/5358-latvian-banks-promote-money-laundering-companies> (accessed 3 February 2017); Global Witness, ‘Grave Secrecy: How a Dead Man Can Own a UK Company and Other Hair-Raising Stories About Hidden Company Ownership From Kyrgyzstan and Beyond’, *Global Witness*, June 2012, <https://www.globalwitness.org/sites/default/files/library/kyrgyzstanreportgrave%20secrecy.pdf> (accessed 3 February 2017).

²⁰⁴ Brown Rudnick, ‘Hermitage Capital Management Limited/Notice of Suspected Money Laundering and Request for criminal investigation in respect of the violations of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance Request for criminal investigation and for issuance of asset freeze order for violation of Latvian Laws on Prevention and Combating Money Laundering and Terrorism Finance’, *Brown Rudnick*, 30 July 2012.

²⁰⁵ *Ibid.*, p.2.

²⁰⁶ *Ibid.*, p.3.

²⁰⁷ A. Bowen and M. Galeotti, ‘Latvia and Money Laundering: An Examination of Regulatory and Institutional Effectiveness in Combating Money Laundering’, *Central European Journal of International and Security Studies*, vol. 8, no.4, 2014, pp.170 and 176.

²⁰⁸ *Ibid.*, p.158.

²⁰⁹ Global Witness, ‘Grave Secrecy: How a Dead Man Can Own a UK Company and Other Hair-Raising Stores About Hidden Company Ownership from Kyrgyzstan and Beyond’, *Global Witness*, June 2012, <https://www.globalwitness.org/sites/default/files/library/kyrgyzstanreportgrave%20secrecy.pdf> (accessed 30th November 2016); Kroll, ‘Project Tenor – Scoping Phase: Final Report’, *Andrian Candu’s Official Website*, 2 April 2015, http://candu.md/files/doc/Kroll_Project%20Tenor_Candu_02.04.15.pdf (accessed 3 February 2017). ²¹⁰ J. Christmas, ‘Parex Bank fraud perpetrated by the Latvian Finance Ministry and EBRD against the IMF, EU, and World Bank’, *Lawless Latvia*, 2011, para. 3.

²¹¹ J. Christmas, ‘Declaration by John Christmas’, *Lawless Latvia*, 2010, p.3.

²¹² *Ibid.*

The bleak image projected by whistle-blowers such as Christmas, and analysts such as Brown Rudnick, Global Witness and Kroll, is further corroborated by OCCPR. OCCPR contend that Latvian banks are actively involved in schemes and shams set up to help clients launder money. Drawing on leaked documents obtained by the project, OCCPR observes: 'Latvian banks appear to offer instructions to clients on how to use fake offshore companies associated with the bank to launder money or evade taxes. The documents outline specific ways to mislead regulators and avoid red flags to regulators and law enforcement'.²¹³

Perhaps not surprisingly then, Latvia is a popular expatriate hub for Uzbek elites, with family members of notable politicians and public officials holding substantial real-estate holdings in the country.²¹⁴ This includes Karimov's nephew, who is said to have owned one of the most expensive luxury cars in the country – although no specific allegations of impropriety have been leveled against him.²¹⁵

However, it would be unfair to single out the Latvian financial sector. There is compelling evidence to suggest the Swiss and UK banking institutions said to be employed by Karimova, were also proactively engaged in illegal conduct relating to money laundering and tax evasion. For example, Standard Chartered Bank (SCB) was the subject of a New York State, Department of Financial Services investigation. It found:

For almost ten years, SCB schemed with the Government of Iran and hid from regulators roughly 60,000 secret transactions, involving at least \$250 billion, and reaping SCB hundreds of millions of dollars in fees. SCB's actions left the U.S. financial system vulnerable to terrorists, weapons dealers, drug kingpins and corrupt regimes, and deprived law enforcement investigators of crucial information used to track all manner of criminal activity.²¹⁶

To enact these illicit schemes, SCB was 'programmatically engaged in deceptive and fraudulent misconduct'.²¹⁷ Allegedly SCB's Group Executive Director rejected internal compliance warnings, informing a US colleague: 'You f---ing Americans. Who are you to tell us, the rest of the world, that we're not going to deal with Iranians'.²¹⁸ SCB was fined US\$667 million in 2012 by US authorities. During 2014 a second fine of US\$300 was levied after deficiencies were found in SCB's 'money laundering transaction surveillance system'.²¹⁹ As part of the settlement, SCB agreed to cease US dollar transactions with high risk clients in its Hong Kong branch, where Karimova's companies are alleged to have conducted their business.²²⁰

The UK's Financial Conduct Authority also had cause to investigate SCB for breaching section 20 of the *Money Laundering Regulations 2007*. Under the regulations, SCB is obliged to identify corporate customers connected to politically exposed persons, and implement enhanced due diligence measures.

²¹³ G. Stack and A. Giga, 'Latvian Banks Promote Money Laundering Companies', *OCCRP*, 16 June 2016, <https://www.occrp.org/en/investigations/5358-latvian-banks-promote-money-laundering-companies> (accessed 3 February 2017)

²¹⁴ I. Sprinģe and S. Jembergahtp, 'Children Of Uzbekistan's Elite Revel In Latvia's Shadows', *re:baltica*, 10 May 2016, www.rebaltica.lv/en/investigations/uzbeks_in_latvia/a/1334/children_of_uzbekistans_elite_revel_in_latvias_shadows.html (accessed 30th November 2016).

²¹⁵ *Ibid.*

²¹⁶ New York State Department of Financial Services, 'Consent Order to Standard Chartered Bank', *New York State Department of Financial Services*, 6 August 2012, <http://www.dfs.ny.gov/about/ea/ea120806.pdf> (accessed 2 December 2016)

²¹⁷ *Ibid.*, para. 1.

²¹⁸ *Ibid.*, para. 8.

²¹⁹ Standard Chartered, 'New York State Department of Financial Services Consent Order Relating to Standard Chartered', *Standard Charter News & Media*, 19 August 2014, <https://www.sc.com/en/news-and-media/news/global/19-08-2014-announcement.html>

²²⁰ Consent Order Under New York Banking Law §§39 and 44. *Department of Financial Services In the Matter of Standard Chartered Bank, New York Branch*, para. 9 (N.Y. D.F.S 19 August 2014).

²²¹ Decision Notice. *UK Financial Conduct Authority to Standard Charter Bank*, Financial Conduct Authority Publications, para. 2.6 (UK FCA 22 January 2014).

²²² *Ibid.*, para. 5.2.

²²³ *Ibid.*, para. 1.1; UK Financial Conduct Authority, 'Standard Bank PLC fined £7.6m for failures in its anti-money laundering controls', *UK Financial Conduct Authority News*, 23 January 2014, <https://www.fca.org.uk/news/press-releases/standard-bank-plc-fined-%C2%A376m-failures-its-anti-money-laundering-controls> (accessed 30th November 2016).

Following a review of 48 corporate customer files,²²¹ all of which were linked to politically exposed persons, the Financial Conduct Authority concluded that SCB had failed to consistently implement risk assessments; neglected to apply appropriate risk ratings to corporate clients; did not carry out appropriate enhanced due diligence measures before establishing business relationships with corporate customers that had connections to politically exposed persons; and failed to adequately monitor existing accounts.²²² In this instance a fine of £7,640,400 was levied against the bank.²²³

Karimova's Swiss banker, Lombard Odier has also come under media and prosecutorial scrutiny, over its link to a number of illicit transactions. For instance, it has been alleged Yasser Arafat laundered US\$300 million of Palestinian Authority funds through the bank, using a British Virgin Islands company.²²⁴ The Marcos family is also accused of storing looted assets with Lombard Odier, on this occasion, by the Philippines Presidential Commission on Good Government.²²⁵ David Leigh and Rob Evans writing for *The Guardian*, linked the bank to a scheme BAE Weapons allegedly used to hide bribe payments made to state clients.²²⁶

Most recently, the US Department of Justice has had cause to investigate Lombard Odier for a range of illegal practices involving its US clients. As part of a non-prosecution agreement, the bank acquiesced to a statement of facts, outlining its illicit activities, which include:

With respect to at least 173 U.S. Related Accounts, Lombard Odier assisted U.S. clients in concealing their assets and income by opening and maintaining accounts in the names of non-U.S. corporations, foundations, trusts, or other entities (collectively, "entities") that it knew were beneficially owned by U.S. persons. The non-U.S. jurisdictions in which the entities were incorporated or formed included Liechtenstein, Panama, and the British Virgin Islands.²²⁷

It needs to be emphasised, this was just one example, of many, documented in the statement of facts, illustrating the lengths to which the bank went to help US citizens evade tax.²²⁸ In this instance, a US\$99,809,000 fine was levied against Lombard Odier by the Department of Justice.²²⁹

Given the fact that many of the financial institutions and corporate regimes Karimova employed to set up the international infrastructure for her Uzbek rackets, had a documented history of helping clients to covertly break the law, it is reasonable to suggest her syndicate found a highly favourable transnational opportunity structure.

Although the US government in particular has made laudable efforts to punish and reform these financial institutions, it is notable that the scale of the fines are modest in comparison to the profits generated by the banks concerned. Given that some of the clients which have been helped to evade the law, and launder illicit profits, are involved in the systematic persecution of distinct groups – which is essential to their illicit economic strategies – it is difficult to suggest by any reasonable standard, such punishments are commensurate with the seriousness of the crimes, measured in terms of culpability and harm.

As a result, it is fair to conclude that Karimova, along with other Uzbek state officials, have by and large found an international financial and corporate terrain that is implicitly permissive of their activities. Which is not to say governments and other international institutions explicitly approve of state organised crime, rather the contention is that as matters currently stand, global conditions are materially favourable to this type of illicit activity. Until such time as the material balance shifts – through major reforms to international finance and corporate regulation – the global system must be categorised as permissive.

On that note, we will now look more closely at Karimova's alleged racketeering activity in the telecommunications sector, in which transnational actors again play a critical role.

224 I. Gilmore, 'Arafat 'diverted \$300m of public money to Swiss bank account', *The Daily Telegraph*, 9 November 2003, <http://www.telegraph.co.uk/news/worldnews/middleeast/palestinianauthority/1446309/Arafat-diverted-300m-of-public-money-to-Swiss-bank-account.html> (accessed 30 November 2016).

225 R. A. Ronda and A. Calica, 'PCGG still on trail of more Marcos funds', *Philstar Global*, 26 August 2003, <http://www.philstar.com:8080/headlines/218631/pcgg-still-trail-more-marcos-funds> (accessed 3 February 2017).

226 D. Leigh, and R. Evans, 'BAE accused of hiding cash paid to win deals', *The Guardian*, 5 December 2003, <https://www.theguardian.com/business/2003/dec/05/freedomofinformation.arms> (accessed 30 November 2016).

227 Non-Prosecution Agreement. *Bank Lombard Odier & Co Ltd, DOJ Swiss Bank Program - Category 2 (US Department of Justice)*, Case No. 5-16-4707, Statement of Fact: para. 18 (CDC TJS 30 December 2015).

228 *Ibid.*

229 *Ibid.*, para. 2.

3.5 Inside the telecommunications ‘racket’

By 2003/04, a range of credible sources suggest that the Karimova syndicate had succeeded in establishing what effectively appears to have been a racket in Uzbekistan’s telecommunications sectors.²³⁰ This meant in practice that any prospective investor who wished to gain market entry, had to pay one of Karimova’s proxy companies an entrance fee, in violation of Uzbek law, international law and foreign bribery legislation. In this section we will examine the particular organisational structures, and transaction chains, used to extract fees from international telecommunications companies seeking entry into Uzbek’s prospective cellular market.

One of the first MNCs to successfully enter the Uzbek market during this period was, Mobile TeleSystems OJSC (MTS). Headquartered in Russia, MTS’ main shareholders at the time were Sistema, a company owned by influential Russian oligarch, Vladimir Yevtushenkov ²³¹, in addition to Deutsche Telekom.²³² Its entry into the sector was secured through the purchase of local telecommunications company, Uzdurobita.²³³ It will be recalled that Karimova acquired a majority stake in this company during 2001/02, allegedly using extortion and misappropriation. Furthermore, evidence furnished in a range of legal proceedings and audits, indicate Uzdurobita’s Director General, Bekhzod Ahkmedov, acted as an envoy, fixer, adviser and manager for Karimova, including her overseas financial affairs.

In July 2004 a formal deal was struck with MTS. It was agreed that it would purchase a controlling stake in Uzdurobita, by acquiring 33 percent of Swisdorn Limited’s 59 per cent share in the company, and ICG’s entire 41 percent holding.²³⁴ It was a matter of public record at the time that Karimova was a major stakeholder in Uzdurobita. Indeed, just months earlier, Karimova told *The Independent*, that she had a ‘major share’ in Uzdurobita, after having ‘personally built up to 150,000 subscribers’.²³⁵ In addition, *The Financial Times* had reported on Karimova’s alleged use of offshore companies, to channel irregular payments.²³⁶ Given that she was the President’s daughter, and a Minister-Counsellor in Uzbekistan’s Russian embassy, MTS should have been aware of the significant risks this acquisition posed, especially as the company claimed to be a proactive corporate citizen.

²³⁰ Witness Statement of Farhod Inogambaev. *ROZ Trading Ltd et al., v. The Coca-Cola Export Corp. et al.*, Case No. GZ SCH-4986, (Int’l Arbitral Centre of the Austrian Fed. Econ. Chamber, June. 6, 2006); Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al.*, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016).

²³¹ JSFC Sistema, ‘Annual Report’, *Investor and Shareholder Information*, 2004, http://www.sistema.com/fileadmin/user_upload/media/48817/annual_report_2004.pdf (accessed 7 February 2017).

²³² US Securities and Exchange Commission, ‘Form 20-F’, *OCGRP*, 2004, https://cdn.ocgrp.org/projects/corruptistan/documents/uzbekistan/MTS_01.pdf (accessed 7 February 2017).

²³³ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al.*, Case No. 1:15-cv- 05063, para. 26-27 (S.D.N.Y. June. 29, 2015).

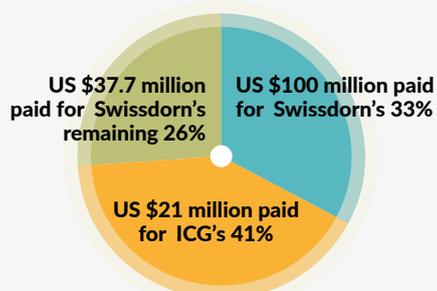
²³⁴ *Ibid.*, para. 26.

²³⁵ M. Dejevsky, ‘She is the jet-setting daughter of Uzbekistan’s notorious dictator, and married into one of the nation’s wealthiest families. But her bitter divorce could derail America’s war on terror. Now she tells her story for the first time’, *The Independent*, 7 January 2004, <http://www.independent.co.uk/news/world/asia/she-is-the-jet-setting-daughter-of-uzbekistans-notorious-dictator-and-married-into-one-of-the-84765.html> (accessed 30th November 2016).

²³⁶ M. Seddon, ‘VimpelCom agrees deal in corruption case’, *Financial Times*, 17 February 2016, <https://www.ft.com/content/e5f63772-d693-11e5-8887-98e7feb46f27> (accessed 7 February 2017).

Nevertheless, the purchase went ahead. MTS paid US\$100 million for the acquisition of Swisdorn's 33 percent stake,²³⁷ while only \$21 million was paid for ICG's 41 per cent holding.²³⁸ In effect, US\$3 million was paid for each percentage of Swisdorn's stake, while just over \$500k was paid for each percentage of ICG's share.²³⁹ Inexplicably the purchase price for Swisdorn's shares in the same company, was six times ICGs.

25 Disparity in purchase price of Uzdunrobita



In addition, Swisdorn and MTS entered into a 'put and call option agreement'.²⁴⁰ Under the agreement, MTS could opt at a later date to acquire Swisdorn's remaining 26 percent stake for US\$37.7 million,

plus five percent interest per annum.²⁴¹ When this option was enacted in June 2007, an addendum was made to the original agreement. It increased the purchase price to US\$250 million.²⁴²

However, even before the 2007 addendum, the irregular price paid for Uzdunrobita was pointed to by *The Moscow Times* reporter Simon Ostrovsky. Ostrovsky wrote in July 2004, 'Moscow-based Mobile TeleSystems on Friday agreed to pay as much as \$159 million for a cellphone company owned by the controversial daughter of authoritarian Uzbek President Islam Karimov -- or roughly 33 times what the company valued itself at [US\$4.7 million] just two years ago'.²⁴³ Yevgeny Golossnoi of Troika dialogue, is quoted in *The Moscow Times* as saying, 'at best, MTS is paying double what Uzdunrobita is currently worth', though Golossnoi adds MTS is not buying the company 'its buying the market'.²⁴⁴

The initial tranche of US\$100,033,000 was transferred on 9 August 2004 from MTS's ING Bank account in the UK to Swisdorn's Aizkraukles account in Latvia.²⁴⁵ The second tranche was transferred in 2007, this time from MTS's account at the Moscow Bank for Reconstruction and Development, into Swisdorn's Standard Chartered account in Hong Kong.²⁴⁶

²³⁷ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para 29 (S.D.N.Y. Feb. 18, 2016).

²³⁸ *Ibid*, para 31; Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 26 (S.D.N.Y. June. 29, 2015).

²³⁹ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 26 (S.D.N.Y. June. 29, 2015).

²⁴⁰ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para 34 (S.D.N.Y. Feb. 18, 2016).

²⁴¹ *Ibid*, para. 34.

²⁴² *Ibid*, para. 33.

²⁴³ S. Ostrovsky, 'MTS Pays Premium to Uzbek 'Princess'', *The Moscow Times*, 19 July 2004, <http://old.themoscowtimes.com/news/article/tmt/229547.html/> (accessed 30 November 2016).

²⁴⁴ *Ibid*.

²⁴⁵ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 43 (S.D.N.Y. Feb. 18, 2016).

²⁴⁶ *Ibid*.

26 How were we to know?

By the end of 2004 any company entering Uzbekistan's telecommunications sector should have been alert to the high corruption risks posed, following a series of authoritative media investigations. Furthermore, financial institutions handling corporate clients in Uzbekistan's telecommunications industry were now under a duty to flag associated accounts as high-risk and apply enhanced due-diligence measures.

18 August 2003: A feature article by David Stern in the *Financial Times* draws attention to Karimova's commercial activities in a range of sectors, and the offshore entities being used to prosecute these activities.²⁴⁷ Her entry into the telecommunications sector through Uzdurobita is documented, along with the irregular service contracts standing behind the transfer of significant sums into accounts held by her offshore holding companies. This report by Stern also links Karimova to Bekhzod Akhmedov, rendering the latter a politically exposed person.

7 January 2004: In a generally sympathetic interview with Gulnara Karimova, conducted by *The Independent's* Mary Dejevsky, Karimova states that her principal source of wealth is derived from her commercial stake in the telecommunications sector. The article specifically cites her stake in Uzdurobita.²⁴⁸

19 July 2004: A perceptive and hard-hitting piece by Simon Ostrovsky in the *Moscow Times* draws on testimony provided by Farhod Inogambaev,²⁴⁹ and documentary evidence collected by Global Witness. The article alleges that Gulnara Karimova had established a racket in Uzbekistan's telecommunications sector. Moreover, it also states that Karimova used sham service contracts, and offshore entities, to facilitate illicit payments made by telecom companies.

The next major telecommunications firm to enter the Uzbek market was Vimpelcom. At the time, Vimpelcom's two largest shareholders were Telenor, a Norwegian multinational, and Russia's Alfa Group, a private investment consortium. The company was initially headquartered in Moscow, however, in 2010 it relocated to Amsterdam. The circumstances surrounding Vimpelcom's entry into the Uzbek telecommunications market was touched upon in the previous section.

To recap, the entry was predicated on discussions held between Vimpelcom and representatives of

Takilant Limited in December 2005.²⁵⁰ Following these discussions, a number of options were put to Vimpelcom's Board. First, on 14 December 2005 it was proposed that Vimpelcom's entry into Uzbekistan should take place through the acquisition of Unitel²⁵¹ – a company with a 31% market share²⁵² – for a purchase price of US\$200 million.²⁵³ However, to safely enter the market without risk of arbitrary interference from the Uzbek state, it was made clear that the company would need to purchase Buztel, which had a mere .3% market share, for US\$60 million, plus the assumption of a US\$2.4 million debt.²⁵⁴

²⁴⁷ D. Stern, *Financial Times*, para. 1-36.

²⁴⁸ M. Dejevsky, *The Independent*, para. 13.

²⁴⁹ S. Ostrovsky, *The Moscow Times*, para. 21-24 and 27-33.

²⁵⁰ Deloitte, *Telenor*, Section 0.3, para. 2.

²⁵¹ *Ibid*, Section 2.2.1, para. 3.

²⁵² Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 47 (S.D.N.Y. Feb. 18, 2016).

²⁵³ Deloitte, *Telenor*, Section 2.2.1, para. 1.

²⁵⁴ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv-05063, para. 39 (S.D.N.Y. June. 29, 2015).

Board papers explicitly disclosed that Buztel was owned by a Russian company 'and a partner'.²⁵⁵ While the partner's name was not stated, the US Department of Justice alleges that Vimpelcom management was aware Karimova had an indirect beneficial interest in Buztel.²⁵⁶

Indeed, management warned Vimpelcom's board, that any attempt to enter Uzbekistan without purchasing Buztel would place the company 'in opposition to a very powerful opponent', and would 'bring threat of revocation of licenses'.²⁵⁷

Vimpelcom's board agreed to the proposal, on the condition a legal opinion was sort confirming that the deal complied with the US *Foreign Corrupt Practices Act* (FCPA).²⁵⁸ This caveat was a concession to the board's independent member, and Telenor nominee. The US Department of Justice claims that once a law firm had been instructed to undertake the assessment, Vimpelcom management failed to alert them that Karimova was known to be a key beneficiary of the proposed arrangement.²⁵⁹ As a result, 'the legal opinion did not address the critical issue identified by the Vimpelcom board as a prerequisite to the acquisition'.²⁶⁰

The purchase of Buztel was finally executed on 29 December 2005.²⁶¹ On 17 January 2006, US\$60 million was transferred to an account held by Buztel's Russian owners, through a British Virgin Islands subsidiary.²⁶² Three days later, a third of the funds (US\$19 million), was transferred to Takilant Limited's Aizkraukles account in Latvia, ostensibly 'for consulting services'.²⁶³ At the time, of course, Takilant was owned and managed on paper by a 22 year old Armenian, domiciled in Tashkent, connected to Karimova's fashion house.²⁶⁴

Following the Buztel acquisition, Vimpelcom proceeded to purchase Unitel on 9 February 2006, for US\$200 plus the assumption of a US\$7.7 million debt.²⁶⁵

A second proposal was put forward to Vimpelcom's board on or about 7 April 2006. It recommended a share purchase agreement be entered into with Takilant Limited, in effect making the latter a local partner. Management noted that the partnership would facilitate '[r]evision of the licensing agreement for the major [telecommunications] licenses' and 'transfer of frequencies'.²⁶⁶ This proposal was again approved subject to a FCPA compliance review, which was executed with the same flaws as the first.²⁶⁷

²⁵⁵ Deferred Prosecution Agreement (Statement of Facts). *United States v. VimpelCom Ltd*, Case No. 16-cr-137, para. 15 (S.D.N.Y. 10 February 2016).

²⁵⁶ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 41 (S.D.N.Y. June. 29, 2015).

²⁵⁷ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 41 (S.D.N.Y. June. 29, 2015).

²⁵⁸ Plea Agreement. *United States v. Unitel LLC*, Case No. 1:16-cr-00137-ER, Exhibit B para. 18 (S.D.N.Y. 10 February 2016).

²⁵⁹ *Ibid*, para. 19.

²⁶⁰ *Ibid*.

²⁶¹ Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 39 (S.D.N.Y. June. 29, 2015)

²⁶² Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 49 (S.D.N.Y. Feb. 18, 2016).

²⁶³ *Ibid*.

²⁶⁴ *Ibid*, para. 23.

²⁶⁵ *Ibid*, para. 50

²⁶⁶ Plea Agreement. *United States v. Unitel LLC*, Case No. 1:16-cr-00137-ER, Exhibit B para 22 (S.D.N.Y. 10 February 2016).

²⁶⁷ *Ibid*

Final sign off on the share purchase agreement was given on 28 March 2007. This gave Takilant a 7% indirect stake in Unitel for US\$20 million, which Vimpelcom could purchase back in 2009 for between US\$57.5 million and US\$60 million.²⁶⁸ On 23 September 2009, Vimpelcom paid Takilant Limited \$57.5 million to repurchase the 7% stake.²⁶⁹ The US Department of Justice argues this share purchase agreement was in effect a front set up to conceal what was in reality a bribe made to induce Karimova to 'corruptly exercise' her ties,²⁷⁰ including an 'ability to influence other Uzbek government officials, to assist Vimpelcom in entering and operating in the Uzbek telecommunications market'.²⁷¹

The third major entrant into Uzbekistan's telecommunications sector during this period was the Swedish firm, TeliaSonera. Negotiations for TeliaSonera's entry has been judiciously documented owing to investigations conducted by the Swedish public broadcaster, SVT,²⁷² consultants Mannheimer Swartling,²⁷³ along with the US Department of Justice.²⁷⁴

Again, like their competitors, it appears that TeliaSonera's management was aware that market entry in Uzbekistan, requires support from a powerful local partner. However, in a twist, it was Uzdunrobita's Director General, Bekhzod Akhmedov, who headed a company owned by rivals MTS, that brokered TeliaSonera's entry.²⁷⁵ By this stage Akhmedov's link with Karimova, through his Uzdunrobita position, had been documented by *The Independent*,²⁷⁶ *Financial Times*²⁷⁷ and *Moscow Times*²⁷⁸. We also now know that Akhmedov managed Karimova's international accounts held at Standard Chartered Bank²⁷⁹ and Lombard Odier.²⁸⁰

The highly irregular nature of these negotiations, was remarked upon by a TeliaSonera executive interviewed by SVT. They observed, 'it was a totally crazy situation. Bekhzod was the CEO for the competitor, MTS. And there sat TeliaSonera, in the competitor's office, negotiating about money for the Karimov family'.²⁸¹

Bekhzod's connection to Karimova explicitly featured in an internal report compiled by Fintur Holdings, a majority owned subsidiary of TeliaSonera

268 Ibid

269 Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 57 (S.D.N.Y. Feb. 18, 2016)

270 Ibid, para. 58.

271 Ibid, para. 62.

272 Uppdrag granskning, SVT, para. 1.

273 Mannheimer Swartling, *OCCRP*, Sammanfattning [Summary].

274 Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016); Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Case No. 1:15-cv- 05063 (S.D.N.Y. June. 29, 2015)

275 Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016).

276 M. Dejevsky, *The Independent*.

277 D. Stern, *Financial Times*, para. 21.

278 The Associated Press, 'Uzbeks Might Revoke MTS License', *The Moscow Times*, 26 June 2012, <http://old.themoscowtimes.com/sitemap/free/2012/6/article/uzbeks-might-revoke-mts- license/461041.html/> (accessed 13 February 2017).

279 Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 21B (S.D.N.Y. Feb. 18, 2016).

280 Uppdrag granskning, SVT, para. 17.

281 F. Yusupov and D. Sindelar, 'Swedish TV: How Millions In Telecoms Bribes End Up In Karimova's Pocket', *Radio Free Europe/Radio Liberty*, 12 December 2012, <http://www.rferl.org/a/gulnara-karimova-telecom- bribes-swedish-tv/24796854.html> (accessed 30th November 2016).

– here he was described as the ‘Chief Executive for Gulnara Karimova’s Investment Group’.²⁸² However, when the matter was presented to the TeliaSonera Board, this information was anonymised. Directors, again, were only informed about an ‘Uzbek Partner’ by management.²⁸³

On 4 July 2007, a TeliaSonera subsidiary entered into a ‘cooperation agreement’ with the ‘Uzbek Partner’.²⁸⁴ It was signed by Akhmedov.²⁸⁵ As part of the arrangement, Akhmedov obtained a letter from UzACI – Uzbekistan’s telecoms regulator – supporting TeliaSonera’s entry.²⁸⁶ The company’s entry was formally enacted a month later through the purchase of Uzbek firm, Coscom.²⁸⁷ In particular, the TeliaSonera subsidiary, TeliaSonera Uzbek Telecom Holding B.V. (TeliaSonera Uzbek) acquired a 99.97% stake in the firm, while another subsidiary TeliaSonera UTA Holding B.V. acquired the remaining .03%.²⁸⁸

In this case, the US Department of Justice claims a different sham arrangement was set up to channel market access fees to Karimova. To that end, a sales contract was signed with Takilant Limited during December 2007. In return for a fee of US\$80 million, Takilant’s Uzbek subsidiary Teleson, would send a formal waiver to the telecoms regulator, repudiating its rights to certain 3G frequencies and a numbering block, which would then be apportioned to Coscom.²⁸⁹ The agreement was formalised on

or about 24 December 2007.²⁹⁰ Three days later, a US\$80 million payment was made by TeliaSonera, from its Svenska Handelsbanken’s account in Sweden to Takilant’s Parex account in Latvia.²⁹¹

In addition, TeliaSonera and Takilant agreed that upon completion of the transfer, Takilant would have a right to acquire 26% of TeliaSonera Uzbekistan, the parent company of Coscom.²⁹² A TeliaSonera executive interviewed by SVT admitted company personnel were aware of the transaction’s dubious nature: ‘I was ... informed that Gulnara would receive shares in the new company that TeliaSonera would form. And that she through a local company would receive around 20 percent. And that TeliaSonera would buy back the shares 2-3 years later – at a pre-set price. I don’t know the amount’.²⁹³

The buy-back provision was enacted by TeliaSonera in 2010, when it elected to repurchase 20% of Takilant’s holding, for a price of US\$220m.²⁹⁴ This was US\$100m in excess of the price set in the original 2007 shareholder agreement, which only obliged TeliaSonera to pay US\$112.5 for the entire 26% holding.²⁹⁵ The alteration mirrored the put and call option agreement Swisdorn Limited made with MTS, where an initial repurchase price of US\$37.7 million, was increased to US\$250 million.²⁹⁶ In TeliaSonera’s case, the payment was wired to Takilant’s Standard Chartered account in Hong Kong.²⁹⁷

²⁸² Mannheimer Swartling, *OCCRP*, Sammanfattning [Summary], para. 14.

²⁸³ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al.* Case No. 1:16-cv-01257, para. 90 (S.D.N.Y. Feb. 18, 2016).

²⁸⁴ Mannheimer Swartling, *OCCRP*, Section 4.3.1, para. 1.

²⁸⁵ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al.* Case No. 1:16-cv-01257, para. 90 (S.D.N.Y. Feb. 18, 2016).

²⁸⁶ *Ibid.*, para. 90.

²⁸⁷ *Ibid.*, para. 91.

²⁸⁸ *Ibid.*, para. 91.

²⁸⁹ *Ibid.*, para. 93-94.

²⁹⁰ *Ibid.*, para. 93.

²⁹¹ *Ibid.*, para. 111.

²⁹² *Ibid.*, para. 96.

²⁹³ SVT, ‘TeliaSonera negotiated directly with the Karimov-regime’, *SVT*, 12 December 2012, <http://www.svt.se/ug/TeliaSonera-negotiated-directly-with-the-karimov-regime> (accessed 3 February 2017).

²⁹⁴ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al.* Case No. 1:16-cv-01257, para. 98 (S.D.N.Y. Feb. 18, 2016).

²⁹⁵ *Ibid.*, para. 99.

²⁹⁶ *Ibid.*, para. 34-35.

²⁹⁷ *Ibid.*, para. 43.

The US Department of Justice contends that this premium was paid in return for the protection, and political favours Takilant's involvement in the operation afforded the company.²⁹⁸ A TeliaSonera executive quoted in US court records, states 'the success of [Coscom] ... has to a large extent been dependent on the support from Takilant'.²⁹⁹ For this premium repurchase price, Takilant is also alleged to have assisted TeliaSonera with 'converting Uzbek currency, renewing Coscom's licenses and obtain[ing] an additional LTE license'.³⁰⁰ Again these are favours that hinge on Karimova's informal leverage within the Uzbek state, rather than a capacity to expertly chaperon the company through complex regulatory procedures.

In a subsequent audit of TeliaSonera's Uzbek business dealings conducted by the law firm, Mannheimer Swartling – at the company's request –

it was found that executives at TeliaSonera paid little attention to the company's local partner, Takilant Limited, or the significant risk that it was a politically exposed entity. The firm's audit concludes, 'the project management's, as well as the board's focus was forward-looking in terms of the political and commercial risks. There was a very limited focus on historical circumstances behind and surrounding the local partner, which could be risky from different perspectives'.³⁰¹

By the end of 2007, three major international telecom brands had entered the Uzbek market, allegedly under the stewardship of Karimova. The US Department of Justice argues, once in operation, tributary payments were frequently made by these companies to the Karimova syndicate, through sham service and sales contracts.³⁰² It is to this matter, we will now turn.

²⁹⁸ Ibid, para. 102.

²⁹⁹ Ibid, para. 101.

³⁰⁰ Ibid, para. 101.

³⁰¹ Mannheimer Swartling, *OCCRP*, Section 4.5.4. para. 3.

³⁰² Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 28 (S.D.N.Y. Feb. 18, 2016).

3.6 Tributary payments through sham agreements

A window into the alleged sham agreements, set up to channel tributary payments to Karimova, is provided by the US Department of Justice's investigation into Vimpelcom, the accuracy of which was confirmed by the company in a deferred prosecution agreement.³⁰³ The Department of Justice discovered that the Vimpelcom subsidiary, Watertrail Industries Limited – a company registered in the British Virgin Islands – entered into a consultancy contract with Takilant Limited, on 19 September 2011.³⁰⁴ Takilant agreed to produce a range of technical reports for Vimpelcom. In addition, the Gibraltar firm – ostensibly owned and managed by a young Armenian fashion industry executive – agreed to secure certain LTE frequencies, even though Vimpelcom 'lacked the ability to employ LTE frequencies in Uzbekistan in 2011'.³⁰⁵

On or about 18 October 2011, Takilant submitted two reports to Vimpelcom. The US Department of Justice observes, 'large portions of both reports, for which Takilant was paid \$30 million, contained little or no original content, relying instead on copied text from open source and other materials ... [such] as Wikipedia articles, blog entries, and PowerPoint presentations from Beeline-Vimpelcom's telecommunications brand'.³⁰⁶ On or about the same day, Uzbek telecoms regulator, UzACI issued a decision amending Unitel's licence (Vimpelcom's subsidiary), permitting the company to employ LTE frequencies.³⁰⁷

The nature of the contract, triggered concern within Vimpelcom. On successive occasions a Vimpelcom executive warned that the deal 'smells like and resembles corruption', they added it 'reeks and doesn't look good'.³⁰⁸ Despite these explicit concerns the contract was executed. Payment was made in two tranches. An initial sum of US\$20 million was transferred from Watertrail Industries Limited's ING bank account in the Netherlands, to Takilant's Swiss bank account at Lombard Odier on 21 September 2011.³⁰⁹ A second payment of \$US10 million was made between the same bank accounts on 19 October 2011.³¹⁰

³⁰³ Deferred Prosecution Agreement (Statement of Facts). United States v. VimpelCom Ltd, Case No. 16-cr-137 (S.D.N.Y. 10 February 2016).

³⁰⁴ Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 69 (S.D.N.Y. Feb. 18, 2016).

³⁰⁵ *Ibid*, para. 70.

³⁰⁶ *Ibid*, para. 74C.

³⁰⁷ *Ibid*, para. 71.

³⁰⁸ *Ibid*, para. 73.

³⁰⁹ *Ibid*, para. 85.

³¹⁰ *Ibid*, para. 85.

27 The Big British Loophole – *The Bribery Act 2010*

In 2010 the UK government passed *The Bribery Act 2010*. It allows individuals and companies to be criminally prosecuted for the bribery of foreign public officials, even when the illicit financial transactions occurred outside the UK territory.³¹¹ In order to have jurisdiction over the offence, those involved must have a 'close connection with the United Kingdom'.³¹²

This includes 'a body incorporated under the law of any part of the United Kingdom'. However, notably, it excludes bodies incorporated in British Overseas Territories (OTs) and Crown Dependencies (CDs). This has prompted criticism from the OECD, which observes: 'the Bribery Act does not provide the U.K. with jurisdiction to prosecute legal persons incorporated in the CDs and OTs. It confers nationality jurisdiction to prosecute natural persons from the CDs and OTs, but not with respect to legal persons incorporated there. In this regard, the Act is identical to – and thus raises the same concerns as – the existing law'.

The significance of this loophole is pointed to in the Vimpelcom case. Here a British Virgin Islands company is alleged to have paid a bribe to a foreign public official, through a sham service contract, using a Gibraltar based holding company. Despite the fact the two alleged entities are incorporated in British Overseas Territories, under *The Bribery Act 2010* the UK courts have no jurisdiction over this matter.

28 The British Connection

- Takilant Limited and Swisdorn Limited organised rackets in Uzbekistan from the British Overseas Territory of Gibraltar.
- A British Virgin Islands subsidiary of Takilant, Tozian Limited was used to launder money.
- Two further British Virgin Islands companies, Rockdale Holdings and Sordex Ventures, were used to handle Karimova's Uzbek businesses, in addition to Panally Limited, registered in England.
- Bribe payments were allegedly made by companies registered in the British Virgin Islands, including Watertrail Limited and Aqute Holdings.
- The proceeds were warehoused in British banks including HSBC and Standard Chartered Bank.
- Bribe payments were funnelled into investment portfolios managed by First Global Investment, a Cayman Island registered company.

³¹¹ See: Organisation for Economic Co-operation and Development (OECD), 'Report on the Application of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the 2009 Revised Recommendation on Combating Bribery in International Business Transactions', *OECD Directorate for Financial and Enterprise Affairs*, 2010, para. 61 and 86-87, <https://www.oecd.org/unitedkingdom/46883138.pdf> (accessed 1 February 2017).

³¹² *Ibid*, para. 87.

29 UK complicity in Karimova syndicate



In addition to sham service/consultancy agreements, the US Department of Justice found evidence of sham sales agreements.³¹³ For instance, Karimova linked companies are alleged to have sold telecommunications providers frequencies, which the latter could lawfully acquire free of charge from the Uzbek regulator UzACI.³¹⁴ On 10 September 2007, for example, Takilant Limited established an Uzbekistan telecommunications company Teleson.³¹⁵ On or about 27 September Takilant, through Teleson, then acquired a series of 3G frequencies.³¹⁶ Two weeks later, on 12 October,

Vimpelcom board's approved the purchase of these 3G frequencies from Teleson for US\$25 million.³¹⁷ A contract to this effect was signed on 29 October.³¹⁸ On or about the same day, Takilant repudiated its 3G frequencies in a letter to UzACI.³¹⁹ This transaction violated the licensing agreement issued to Teleson by UzACI, which states the '[I]censee cannot sell, in part or in full, or in any other way transfer to a third party the rights or obligations regarding this license'.³²⁰ Despite this violation, on 8 November UzACI issued the repudiated frequencies to the Vimpelcom subsidiary, Unitel.³²¹

³¹³ Ibid, para. 63-74.

³¹⁴ Ibid, para. 74D.

³¹⁵ Ibid, para. 97B.

³¹⁶ Ibid, para. 62C.

³¹⁷ Ibid, para. 59.

³¹⁸ Ibid, para. 60.

³¹⁹ Ibid, para. 61.

³²⁰ Ibid, para. 62D.

³²¹ Ibid, para. 61.

The US\$25 million was transferred to Takilant's Parex account in Latvia, in two tranches, from an account held by a Vimpelcom subsidiary at ING Bank in the Netherlands.³²² The US Department of Justice claims 'no part of the \$25 million paid to Takilant was legally required to obtain rights to use the frequencies in Uzbekistan'.³²³ Accordingly the department concludes, the payments to Takilant were made for the 'corrupt purpose' of obtaining Karimova's influence with Uzbek government officials, and to assist Vimpelcom operate in the national telecommunications market.³²⁴

Just over a month later, a similar agreement was entered into between Teleson and TeliaSonera, netting Takilant US\$80 million.³²⁵ On this occasion the payment was made from the TeliaSonera's Svenska Handelsbanken account in Sweden, to Takilant's Latvian account held with Parex Bank.³²⁶

MTS is also alleged to have been involved in sham sale agreements. For instance, the US Department of Justice claims that on or about 21 August 2008 MTS agreed to pay Takilant Limited US\$30 million, if its subsidiary waived rights to certain mobile frequencies.³²⁷ Full payment would only be made if UzACI then reassigned the frequencies to MTS.³²⁸ UzACI reassigned the frequencies on or about 25 August 2008.³²⁹ The US\$30 million payment was transferred through six tranches of \$5 million, 20% of which was wired into Takilant's Latvian Parex account, while the remaining 80% was paid into the company's Standard Chartered account in Hong Kong.³³⁰

An important caveat needs to be added when framing these tributary payments. Karimova, we observed, appears to have enjoyed a political monopoly over the telecommunications industry. In addition, she enjoyed an evidenced capacity to influence the actions of a wide range of state agencies, from sector regulators, through to the prosecutor's office. Complicating matters, all telecommunications companies were operating in an ambiguous regulatory environment, where legitimate or illegitimate charges could be laid, for economic crimes and regulatory violations relating to currency conversion, taxation and service provision. The companies also had in-country staff, who could be arrested and tortured, as leverage.³³¹ Accordingly, we must be careful when defining payments facilitated through sham agreements as bribes. While a significant number of these payments appear to have been tributary in nature, in return for Karimova's protection and other political favours, nevertheless there is circumstantial evidence to suggest some payments may have been extortionate in character.

For instance, it is alleged by the US Department of Justice that during 2008 'MTS received periodic complaints from Uzbek regulatory agencies, including UzACI, related to the quality of communication and other problems with Uzdunrobita's operations'.³³² UzACI, of course, had the capacity to cancel MTS' operating license. Given the Uzbek political environment, this could be done without due process. Accordingly, the US Department of Justice claims, 'in order to resolve

³²² Ibid, para. 62; Complaint, *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv- 05063, para. 60 (S.D.N.Y. June. 29, 2015)

³²³ Complaint, *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 62 (S.D.N.Y. Feb. 18, 2016).

³²⁴ Ibid, para. 97.

³²⁵ Ibid, para. 94.

³²⁶ Ibid, para. 111.

³²⁷ Ibid, para 40.

³²⁸ Ibid.

³²⁹ Ibid, para. 41.

³³⁰ Ibid, para. 43.

³³¹ See section 1.2

³³² Complaint, *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 38 (S.D.N.Y. Feb. 18, 2016).

these complaints' MTS representatives sought the assistance of Karimova and her associates, 'because their connections to the Uzbek authorities were critical'.³³³ In the same approximate period MTS is said to have entered into a sham agreement with Karimova's proxy company worth US\$30 million.³³⁴

Further evidence pointing to the existence of an extortion racket in Uzbekistan's telecommunications sector is provided in leaked cables composed by US Ambassador Jon Purnell, at the US embassy in Tashkent.³³⁵ Purnell alleges that Karimova was behind a plot to extort money or assets from Uzbek telecom firm, Skytel.³³⁶ Skytel at the time was part-owned by a US company, NCI Projects International,³³⁷ and also had connections with Sergey Tsoy, the owner of Uzbekistan's Business Bank, Poytaht Hotel and the Segura insurance company.³³⁸ It is alleged that Karimova and Tsoy were in dispute at the time.³³⁹ It appears in January 2005 Skytel began experiencing operational problems, when its mobile frequencies were jammed by the Department of Defence.³⁴⁰ According to embassy officials, 'in

earlier discussions' with a Karimova intermediary which took place 'before the company's "technical problems" began, she wanted 50 percent' of Skytel.³⁴¹ In a subsequent meeting held with UzACI's First Deputy Chairman, on 14 February 2005, he,

gave the [Skytel] executives two options: a) allow the GOU [Government of Uzbekistan] to buy back the whole company at a significantly reduced rate (considering the depreciation of the equipment) or b) for an additional USD 30 million, [First Deputy Chairman] Isbasarov could personally guarantee that Skytel would be able to use the frequency without interference from other parties.³⁴²

Purnell concludes, 'only a seriously influential individual like Gulnara [Karimova] could use this amount of GOU resources for her own self-interest'.³⁴³ Given these examples it is reasonable to conclude that some of the illicit payments made to the Karimova syndicate, may have been coerced.

³³³ Ibid.

³³⁴ Ibid, para. 39.

³³⁵ J. Purnell, 'Skytel Scandal: Fiasco in the making', *Wikileaks*, [website], 2005, para. 6C-7C, https://wikileaks.org/plusd/cables/O5TASHKENT572_a.html (accessed 13 February 2017).

³³⁶ Ibid, para. 4C - 6C.

³³⁷ Ibid, para. 1C.

³³⁸ Ibid, para. 8C.

³³⁹ Ibid.

³⁴⁰ Ibid, para. 2C.

³⁴¹ Ibid, para. 6C.

³⁴² Ibid, para. 4C.

³⁴³ Ibid, para. 9C.

3.7 Laundering the proceeds

In total the US Department of Justice points to what it claims is \$US850 million in illicit payments, inappropriately made to obtain the influence and protection of Karimova.³⁴⁴ Documents submitted to the courts, suggest the proceeds of this illicit activity can be traced to two principal financial warehouses. Over 50% was deposited in Swiss bank accounts held with Lombard Odier, by Takilant Limited and its subsidiary Tozian Limited.³⁴⁵ It is alleged by Pilet this move to the Swiss bank was initiated by Bekhzod Akhmedov.³⁴⁶

The majority of the funds deposited were wired from a Takilant account held at Parex Bank in Latvia (US\$102,864,623.01), and its Standard Chartered account held in Hong Kong (US\$346,949,755.21).³⁴⁷ Approximately US\$105m was directly wired to Takilant's Swiss bank by TeliaSonera, Vimpelcom and their subsidiaries.³⁴⁸ Subsequently, Takilant transferred US\$200m to another Lombard Odier account held by its British Virgin Islands subsidiary, Tozian Limited.³⁴⁹ A small portion of these proceeds (US\$3.5m), was then

shifted to a Swiss account Tozian held with Union Bancaire Privee (UBP).³⁵⁰ All of these funds, the Department of Justice claims, can be linked to the proceeds of crime.

The remainder of the illicit proceeds appear to have been wired to a segregated portfolio fund, First Global Investments SPC Limited, based in British Overseas Territory the Cayman Islands.³⁵¹ It appears the portfolio fund was registered in the Cayman Islands on 19 September 2007.³⁵² Three months

³⁴⁴ Ibid, para. 1; Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 1 (S.D.N.Y. Feb. 18, 2016).

³⁴⁵ Ibid.

³⁴⁶ F. Pilet, 'La princesse a perdu la clé de son trésor genevois', *François Pilet*, 30 September 2012, <https://francoispilet.net/la-princesse-a-perdu-la-cle-de-son-tresor-genevois/> (accessed 11 February 2017).

³⁴⁷ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257, para. 126 (S.D.N.Y. Feb. 18, 2016).

³⁴⁸ Ibid.

³⁴⁹ Ibid, para. 130.

³⁵⁰ In 2016, Union Bancaire Privee entered into a non-prosecution agreement with the US Department of Justice, for its role in tax evasion. The US Department of Justice observes: 'UBP aided and assisted U.S. clients in opening and maintaining undeclared accounts in Switzerland and concealing the assets and income they held in these accounts ... UBP assisted U.S. clients with undeclared accounts at UBP by placing and maintaining their assets in the names of non-U.S. structures, rather than the actual beneficial owner of the funds. During the period since Aug. 1, 2008, UBP held 502 U.S.-related accounts in the names of non-U.S. structures formed in jurisdictions such as the British Virgin Islands, the Cayman Islands, Liechtenstein and Panama ... this aided and assisted the U.S. clients in concealing these assets and income from the IRS' (US Department of Justice, 'Justice Department Announces Resolution under Swiss Bank Program with Union Bancaire Privée, UBP SA', *Justice News*, 6 June 2016, <https://www.justice.gov/opa/pr/justice-department-announces-resolution-under-swiss-bank-program-union-bancaire-priv-e-ubp-sa>; Ibid, para. 5C.).

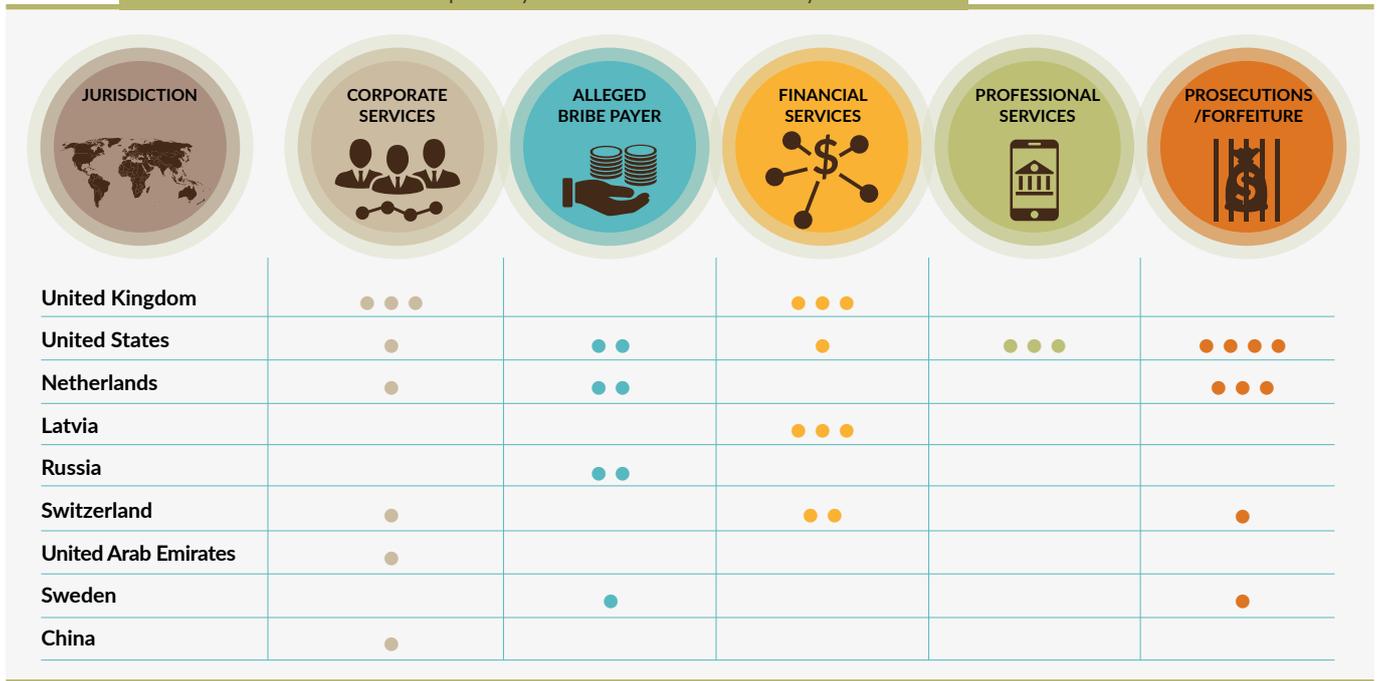
³⁵¹ Cayman Islands Monetary Authority, 'List of Mutual Fund', *Cayman Islands Monetary Authority*, [website], 2016, p.67, www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3861 (accessed 11 February 2017).

³⁵² Ibid.

later, Karimova linked companies began wiring funds into different segregated portfolios. In total, US\$247,999,954.32 was transferred from Swisdorn Limited's Standard Chartered account in Hong Kong, to a series of bank accounts held at Citibank UK, linked to the First Global Investment portfolios.³⁵³ A further, \$38,000,000 was transferred from Takilant's

account in Parex bank in Latvia,³⁵⁴ while Expoline Limited wired US\$14,000,000³⁵⁵ from its Hong Kong account at the Standard Chartered Bank. It will be recalled, Expoline Limited was a Hong Kong registered company, owned and managed by Rustam Madumarov,³⁵⁶ Karimova's alleged proxy and boyfriend.³⁵⁷

30 International complicity in the Karimova syndicate



³⁵³ Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Case No. 1:15-cv- 05063, para. 72 (S.D.N.Y. June. 29, 2015).

³⁵⁴ Ibid, para. 85.

³⁵⁵ Ibid, para. 78.

³⁵⁶ Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 26C (S.D.N.Y. Feb. 18, 2016).

³⁵⁷ Ibid, para. 24.

3.8 The demise of Karimova: Rupture rather than justice

Following her prolific rise between 2001 and 2010, Karimova's business empire collapsed rapidly, concluding with her arrest in 2014. It appears that Karimova's commercial interests in Uzbekistan have now been liquidated, and many of those involved in the syndicate are reported to have been arrested and imprisoned by Uzbek authorities. A significant portion of the offshore fortune alleged to have been amassed by Karimova is now frozen and currently the subject of asset forfeiture proceedings, by an international coalition of state actors.³⁵⁸

The precise events which precipitated the eradication of this syndicate from within key sites of state power in Uzbekistan are not yet clear. Nevertheless, a number of evidence based statements can be made on the integrity of the process underpinning the break-up of the Karimova syndicate

First, it ought to be noted that as early as 2004, evidence relating to Karimova's racketeering activity had been presented in high profile news publication, after her financial adviser had fled to the US with documentary and experiential evidence on her business dealings. That Farhod Inogambaev had to seek asylum in the US, before he could talk openly about these transactions, speaks volumes about the rule of law in Uzbekistan.

In addition to this, many of the sham contracts Karimova allegedly employed to conceal bribe payments, were apparent to the sector's regulator. Rather than prevent this activity, it appears that the telecommunications regulator became a party to

the racket. For example, on 21 August 2008, MTS agreed to pay Takilant US\$30 million, if the latter's Uzbek subsidiary Teleson Mobile LLC, waved its right to certain frequencies.³⁵⁹ Full payment would be made on condition that these frequencies were reassigned to MTS' subsidiary, Uzdurobita, by the telecommunications regulator.³⁶⁰ Teleson, a shelf company, had acquired the frequencies just a week before the agreement was struck with MTS. According to the US Department of Justice, the frequencies were reassigned to Uzdurobita by the telecommunications regulator ³⁶¹ despite the fact it is prohibited under Uzbek law for private entities to directly transfer frequencies, indeed as has already been noted, telecommunication companies can obtain these frequencies from the Uzbek government without payment of upfront fees.³⁶²

Despite these irregular activities, which the media reported on, Karimova was able to assume a series of high profile political positions in the Uzbek state. For example, in 2008 she was appointed Deputy Foreign Minister, and Permanent Representative

³⁵⁸ For example, see: [Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257 \(S.D.N.Y. Feb. 18, 2016\)](#); [Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Case No. 1:15-cv- 05063, para. 72 \(S.D.N.Y. June. 29, 2015\)](#).

³⁵⁹ [Complaint. United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al, Case No. 1:16-cv-01257, para. 40 \(S.D.N.Y. Feb. 18, 2016\)](#).

³⁶⁰ *Ibid.*

³⁶¹ *Ibid.*

³⁶² *Ibid.*, para. 42D.

of Uzbekistan to the United Nations.³⁶³ In 2010, Karimova also became Uzbek Ambassador to Spain.³⁶⁴

Added to this, Abdulla Aripov, who headed the telecommunications regulator between 2005 and 2009, was recently appointed Prime Minister of Uzbekistan.³⁶⁵ This appointment occurred after international civil forfeiture proceedings, criminal prosecutions, audit reports, and media investigations, had revealed that the telecommunications regulator was party to numerous sham sales contracts between front companies linked to Karimova, and major international concerns including MTS, Vimpelcom and TeliaSonera.

Another figure connected to the Karimova syndicate, Salim Abduvaliyev, has also recently been appointed to an official position, in this case, Deputy Head of the Uzbek Olympic Committee. US Embassy cables published by Wikileaks, label Abduvaliyev a 'mafia chieftain'.³⁶⁶ Citing embassy intelligence sources, Ambassador Purnell claims 'Salim locates foreign and other investors interested in GOU tenders, putting them in touch with an Iranian businessman holding British citizenship. The Iranian prepares the paperwork, submitting the tender to First Daughter Gulnora Karimova for approval'.³⁶⁷

Part of the reason that no enforcement action was taken against Karimova or her collaborators, despite the publicity their activities attracted, lies in the lack of an independent prosecutor, judiciary or legal profession in Uzbekistan. Problematically many high profile criminal cases in Uzbekistan, with a political dimension, are handled and directed by the SNB. Given that senior SNB officials employ the agency to secure their own business interests, and the political- economic interests of power-brokers in the Uzbek state and business community, it is unable to act in an independent or impartial manner when investigating crimes.

Furthermore, the SNB's modus operandi is covert and violent. Those prosecuted by the SNB face interrogation under coercive conditions marked by threats, torture, forced confessions, doctored evidence, and rigged trials. Other governmental agencies involved in the prosecution process are unable to act independently of SNB orders. Accordingly, those ostensibly responsible for handling cases within the General Prosecutor's Office must follow SNB directions, regardless of the evidence, or face dismissal. Lawyers who robustly defend clients, face revocation of their operating license, while Judges who fail to observe the dictated outcome, risk removal by a judicial selection commission controlled by the President and SNB.

Thus the events of 2014-15, which saw Karimova and her alleged accomplices arrested, must be read in this light. To that end, on 17 February 2014, the SNB launched a raid of Karimova's Tashkent apartment.³⁶⁸ She was taken to the main family residence in Tashkent and placed under indeterminate house-arrest, without formal charges being laid against her.³⁶⁹ Patrucic reports, 'Uzbek prosecutors have said she operated an organised crime group that stole US\$ 53 million from the state and state businesses through forgery, blackmail and extortion in running her businesses, including Uzbekistan Airways, Coca Cola, a refinery and others'.³⁷⁰ Later, in July 2014, thirteen associates of Karimova were given custodial sentences, this included Rustam Madumarov, and Gayane Avakian, who were sentenced to 6.5 and 6 years respectively.³⁷¹ The following year news reports noted 'authorities in Uzbekistan have arrested nine more individuals with current or former business ties to Gulnara Karimova ... [including] two former senior managers of a local Coca-Cola bottler and a man thought to be a former financial adviser of Karimova'.³⁷²

³⁶⁸ D. G. Lewis, 'Tackling Corruption in Uzbekistan: A White Paper', *Open Society Foundation*, 2016, <https://www.opensocietyfoundations.org/sites/default/files/tackling-corruption-uzbekistan-20160524.pdf>, (accessed 12 February 2017).

³⁶⁹ Ibid.

³⁷⁰ M. Patrucic, 'How The President's Daughter Controlled The Telecom Industry', *OCCRP*, 22 March 2015, <https://www.occrp.org/en/corruptistan/uzbekistan/gulnarakarimova/presidents-daughter-controlled-telecom-industry> (accessed 12 February 2017).

³⁷¹ Radio Free Liberty/Radio Liberty Uzbek Service, 'Associates Of Uzbekistan's Gulnara Karimova Reportedly Sentenced', *Radio Free Liberty/Radio Liberty*, 14 July 2015, <http://www.rferl.org/a/karimova-avakian-uzbekistan-madumarov-trial-sentence-reportedly/25455961.html> (accessed 11 February 2017).

³⁷² Radio Free Liberty/Radio Liberty Uzbek Service, 'More Former Karimova Associates Arrested In Uzbekistan', *Radio Free Liberty/Radio Liberty*, 19 August 2015, <http://www.rferl.org/a/uzbekistan-karimova-associates-arrested/27197757.html> (accessed 11 February 2017).

Given the corrupted character of Uzbekistan's criminal justice system, we can confidently assume, that the decision to arrest Karimova and her accomplices was not an independent one, based off an impartial investigation overseen by police and the prosecutor's office. To the contrary, it was administered through the SNB, and politically motivated.³⁷³ Furthermore, given the state of the criminal justice sector in Uzbekistan, neither Karimova nor her accomplices could have been afforded a fair or transparent trial, on which a secure conviction could be made according to international standards. The outcome of the trials – where they in fact took place – would have been decided in advance, and merely executed by the judiciary.

Of course, prosecutions have also taken place outside Uzbekistan in jurisdictions where there is a better track record of prosecutorial and judicial independence. These international interventions were triggered when Karimova's close associate Bekhzod Akhmedov fled Uzbekistan, allegedly after relations with the President's daughter fractured. Given that Akhmedov is alleged to have enjoyed power of attorney over the financial affairs of Takilant Limited and Swisdorn Limited, his flight abroad posed a significant threat to the Karimova syndicate.

It appears that actions taken to protect syndicate assets, alerted criminal justice authorities internationally to the illicit activities being conducted through offshore accounts and corporate vehicles. For instance, Takilant Limited's proxy

owner, Gayane Avakyan travelled to Geneva on 29 June 2012, seeking to withdraw several hundred million Swiss francs held at Lombard Odier.³⁷⁴ According to Patrucic, 'while on paper she owned Takilant, she was not authorised to access the account and so was refused'.³⁷⁵ The only individual with apparent authority to access the account was Akhmedov.³⁷⁶ Avakyan's visit, however, alerted Lombard Odier to an Interpol warrant that had been filed against Akhmedov by the Uzbek state (we will recall, an Interpol warrant against Maqsudi was also issued following a marriage breakdown with Karimova).³⁷⁷ According to Pilet, 'the day following the visit of Gayane Avakyan, 30 June, Lombard Odier sends a suspicious activity report of money-laundering to the federal authorities'.³⁷⁸

A second attempt was then made by members of the Karimova syndicate to access the account. This time it was two Coca-Cola Bottlers of Uzbekistan executives, Aliyer Ergashev and Shahruh Sabirov, who were 'known to be under the control of Gulnara Karimova'.³⁷⁹ According to the *Financial Times*, 'Mr Ergashev manages properties on the Cote d'Azur and Paris' chic 16th arrondissement. Registration papers for the properties show Ms Karimova as the beneficial owner. Other documents show links between Mr Sabirov and Ms Karimova through two companies based in Hong Kong'.³⁸⁰ Both men were arrested by Swiss authorities.³⁸¹ An official probe was then launched by the prosecutor and US\$650 million of Takilant's funds was frozen.³⁸²

³⁷³ To that end, it has been noted that the Karimova syndicate had begun to significantly encroach on the economic interests of Uzbek power-brokers, in addition to Russian and German financial interests. Furthermore, Karimova had exacerbated the situation by publicly signaling her ambition to be President. Nevertheless, owing to the secretive nature of clan politics, it is impossible to know with any confidence the precise reasons behind the maneuvers against the Karimova syndicate.

³⁷⁴ M. Patrucic, 'Following Gulnara's Money', *OCCRP*, 21 March 2015, <https://www.occrp.org/en/corruptistan/uzbekistan/gulnarakarimova/following-gulnaras-money> (accessed 12 February 2017).

³⁷⁵ *Ibid*, para. 2.

³⁷⁶ Uppdrag granskning, *SVT*, para. 19.

³⁷⁷ M. Patrucic, *OCCRP*, para. 3.

³⁷⁸ F. Pilet, *François Pilet*, para. 7.

³⁷⁹ *Ibid*; J. Zaugg, *L'Hebdo*, para. 5.

³⁸⁰ C. Weaver and N. Buckley, 'Uzbekistan: The Leading Lady', *The Financial Times*, 7 March 2013, <https://www.ft.com/content/e73db090-85b7-11e2-9ee3-00144feabdc0>, (accessed 13 February 2017).

³⁸¹ J. Lillis, 'Uzbekistan's Coca-Cola Problem: Is It the Real Thing?', *EurasiaNet*, 27 February 2013, <http://www.eurasianet.org/node/66608> (accessed 13 February 2017)

³⁸² M. Patrucic, *OCCRP*, para. 3.

31 Selected list of Karimova's alleged associates



Bekhzod Akhmedov

Nationality: Uzbek
 Notable roles: Director-General, Uzdurobita
 Alleged link: Envoy, fixer, manager, advise.



Gayane Avakyan

Nationality: Armenian
 Notable roles: Director, House of Style
 Alleged link: Proxy, manager.



Irina Avtaikina

Nationality: Uzbek
 Notable roles: -
 Alleged link: Proxy.



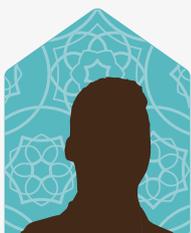
Brian Bowen

Nationality: US
 Notable roles: Founder, Uzdurobita
 Alleged link: Adviser, envoy.



Miradil Djalalov

Nationality: Uzbek
 Notable roles: Owner, CEO, Zeromax
 Alleged link: Manager, proxy.



Aliyer Ergashev

Nationality: Uzbek
 Notable roles: Executive, Coca-Cola Bottlers of Uzbekistan
 Alleged link: Manager.



Harry Eustace, Snr

Nationality: US
 Notable roles: Adviser, Zeromax GmbH; Director, American Uzbekistan, Chamber of Commerce; Co- Owner, FMN Logistics.
 Alleged link: Adviser.



Farhod Inogambaev

Nationality: Uzbek
 Notable roles: -
 Alleged link: Adviser, manager, fixer, envoy.



Rustam Madumarov

Nationality: Uzbek
 Notable roles: Singer, DADO
 Alleged link: Proxy, manager.



Sharuh Sabirov

Nationality: Uzbek
 Notable roles: Executive, Coca-Cola Bottlers of Uzbekistan
 Alleged link: Manager.



Sodiq Safoyev

Nationality: Uzbek
 Notable roles: Deputy Foreign Minister, Chair of the Foreign Relations Committee
 Alleged link: Envoy, fixer.



Alisher Sayfuddinov

Nationality: Uzbek
 Notable roles: Deputy Chief, Presidential Security Service
 Alleged link: Envoy, fixer.



Mirabror Usmanov

Nationality: Uzbek
 Notable roles: Minister of Trade, Deputy Prime Minister
 Alleged link: Adviser.

Following the Swiss probe, Swedish investigative news programme, *Uppdrag Granskning*, aired an exposé during September 2012. The programme claimed that TeliaSonera paid bribes worth US\$335m to Takilant Limited, a company owned by Gayane Avakyan, a young fashion industry executive, with close ties to Karimova.³⁸³ Shortly after the exposé Swedish anti-corruption police launched an investigation into TeliaSonera.³⁸⁴

These investigations, and exposés, led to further prosecutions and civil forfeiture actions. During March 2014, Vimpelcom was informed that it was under criminal investigation in the United States and Netherlands.³⁸⁵ Later on 4 November 2015, former Vimpelcom CEO, Jo Lunder, was arrested by Norwegian police as part of a corruption probe.³⁸⁶ Then in 2016, the US Department of Justice announced that a deferred prosecution agreement had been reached with Vimpelcom.³⁸⁷ As part of the settlement, Vimpelcom agreed to pay a criminal penalty of US\$230 million.³⁸⁸ The Dutch based firm has also reached settlements with the US Securities and Exchange Commission, and Netherland's Public Prosecution Service, leading to fines of US\$375m

and US\$230m respectively.³⁸⁹ Over this general period, the US Department of Justice also launched two asset forfeiture actions directed at what are claimed to be Karimova's illicit proceeds, seizing US\$550m held in Swiss bank accounts, and a further US\$330m held in a series of offshore investment portfolios.³⁹⁰ Most recently it has been announced that the US and Dutch authorities have offered to settle prosecutions against TeliaSonera for US\$1.4 billion,³⁹¹ while in the Netherlands Takilant Limited has been successfully prosecuted.³⁹²

Accordingly, there is evidence to support the contention that justice is in the process of being served at an international level, through a series of prosecutions and asset forfeiture proceedings – although questions could be raised over whether fines are commensurate with the seriousness of the criminality. However, at a domestic level in Uzbekistan, the prosecution of those connected to the Karimova syndicate has been conducted largely in secret, under the auspices of the SNB. Here the imprisonment of syndicate actors is more a signal of shifts in the local power terrain, than any genuine attempt to enact justice.

³⁸³ Uppdrag granskning, 'TeliaSonera billion deal with dictatorship', SVT, 18 September 2012, <http://www.svt.se/ug/TeliaSonera-gjorde-miljardaffar-med-diktatur-genom-bolag-i-skatteparadis> (accessed 1 December 2016).

³⁸⁴ Telia News Articles (2012), 'Uzbekistan Update', *Telia Company*, 26 September 2012, <http://www.teliacompany.com/en/newsroom/news/news-articles/2012/uppdatering-uzbekistan/> (accessed 13 February 2017).

³⁸⁵ VimpelCom Ltd. 'VimpelCom Announces Investigations', *PR Newswire*, 12 March 2014, <http://www.prnewswire.com/news-releases/vimpelcom-announces-investigations-249681601.html> (accessed 13 February 2017).

³⁸⁶ M. Eckel, 'Norway Arrests Ex-VimpelCom CEO As Uzbek-Linked Probe Expands', *Radio Free Europe/Radio Liberty*, 5 November 2015, <http://www.rferl.org/a/russia-norway-vimpelcom-ex-chief-arrested/27347218.html> (accessed 13 February 2017).

³⁸⁷ Office of Public Affairs, 'VimpelCom Limited and Unitel LLC Enter into Global Foreign Bribery Resolution of More Than \$795 Million; United States Seeks \$850 Million Forfeiture in Corrupt Proceeds of Bribery Scheme', *US Department of Justice*, 18 February 2016, <https://www.justice.gov/opa/pr/vimpelcom-limited-and-unitel-llc-enter-global-foreign-bribery-resolution-more-795-million> (accessed 13 February 2017).

³⁸⁸ *Ibid.*

³⁸⁹ *Ibid.*

³⁹⁰ Complaint. *United States of America v. all funds held in account number CH1408760000050335300 at Lombard Odier Darier Hentsch and Cie Bank, Switzerland, on Behalf of Takilant Limited, and Any Property Traceable Thereto et al*, Case No. 1:16-cv-01257 (S.D.N.Y. Feb. 18, 2016); Complaint. *United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al*, Case No. 1:15-cv-05063 (S.D.N.Y. June. 29, 2015).

³⁹¹ M. Verbergt, and D. Gauthier-Villars, 'Telia Asked to Pay \$1.4 Billion to Settle Bribery Probe', *The Wall Street Journal*, 15 September 2016, <http://www.wsj.com/articles/telia-to-pay-1-4-billion-in-bribery-probe-1473921293> (accessed 13 February 2017).

³⁹² T. Escritt 'Dutch Court Orders Seizure of 123 Million Euros in Uzbek Corruption Case', Reuters, 20 July 2016, <http://www.reuters.com/article/us-netherlands-uzbekistan-corruption-idUSKCN10026V> (accessed 20 March 2017).

3.9 Conclusion

Following her prolific rise between 2001 and 2010, Karimova's bleak fate is indicative of the complex, turbulent nature of power-cliques in Uzbekistan, and the way in which agents who wield power, often become its victims. Indeed, many of the state agencies which executed Karimova's orders are now implicated in her prosecution, which is perhaps the clearest signal of the fickle nature of state organised crime in Uzbekistan, whilst further demonstrating that this system is institutionally inscribed and systemic. It, therefore, endures despite the demise of individual operatives and syndicates.

Karimova's case, nonetheless, offers an unprecedented window into this system owing both to her prolific and expedited rise, and the significant paper trail it has left behind. In contrast to the socialite caricature often presented of Karimova, reality appears to be more sinister. If the evidence presented in the foregoing sections is accurate – the volume and variety of sources suggest credibility – it would appear Karimova presided over a state organised crime syndicate that operated through a diverse range of governmental organs. This syndicate administered a range of legitimate enterprises, although evidence has been forwarded to suggest key assets were acquired through misappropriation or expropriation. A significant stream of income was also allegedly generated through protection and extortion rackets. What seemingly made these operations so successful, was the access the syndicate had to state machinery, which acted as its core lever and teeth. In the end, of course, the Karimova syndicate was itself expropriated and consumed by rivals, who have now secured positions of dominance in the Uzbek state after the death of Islam Karimov.

We have also seen that Karimova syndicate's activity was not self-contained within Uzbekistan. Many illicit transactions, in fact, were organised through entities positioned in offshore jurisdictions. The United Kingdom, in particular, was a critical spoke in the Karimova case. The rackets and bribe payments were apparently organised using companies incorporated in British Overseas

Territories, while British banks were alleged to have been key nodal points for the syndicate's expansive money laundering operations. The United States, Switzerland and Latvia also ranked highly. US citizens and companies for instance, were implicated in expropriation and bribery allegations, while a US bank was also evidently employed to launder money.³⁹³ Switzerland and Latvia's primary function were as money laundering centres. It needs to be added and underlined, the institutions and jurisdictions involved here, have been implicated in a range of criminal activities. Their relationship with the Karimova syndicate was not anomalous. It appears to be part of a systemic pattern of activity. Therefore, it is reasonable to conclude, in a region like Uzbekistan where state-organised crime is fractured between rival syndicates, the dangers and risks involved, create a reliance on offshore jurisdictions to enhance secrecy, security and wealth protection. These jurisdictions readily provide such services.

In the final section of this report consideration will be given to the principles and mechanisms that can be usefully deployed to guide international efforts directed towards remedy and non-reoccurrence in the Karimova case. This will lead to a series of concrete proposals, grounded in the foregoing evidence, that aim to enhance the impact of the ongoing US led asset-forfeiture initiative, both with respect to remediating victim populations, and promoting embryonic forms of reform in Uzbekistan that can aid non-reoccurrence.

³⁹³ Evidence provided by Karimova's financial adviser suggests Citibank UK closed down an account held in the name of Revi UK Limited, however, Inogambaev argues significant flows of money went through her personal account at Citibank, Dubai.

‘It was a totally crazy situation. Bekhzod was the CEO for the competitor, MTS. And there sat TeliaSonera, in the competitor’s office, negotiating about money for the Karimov family’

TeliaSonera Executive



4. Victimhood and Grand Corruption: Building a Transformative Model

Under the leadership of the US Department of Justice, approximately US\$850 million worth of assets have been seized, which are alleged to belong to Gulnara Karimova, through a series of front companies. The Department of Justice argues that these assets should be forfeited as the proceeds of crime. Given that the total sum sort amounts to almost one billion dollars, this asset-forfeiture action raises important legal and policy issues – in particular, how can the funds be deployed in ways that help remedy the harm inflicted by grand corruption in Uzbekistan.

The default position in practice, and law, has been to return stolen assets to the state that has suffered loss as a result of this conduct, freeing the recipient government to apply these funds as national leaders see fit. However, when the state, and its organs, have been systematically involved in grand corruption, sensitive policy challenges emerge. Should the money be returned in these situations? If so, under what conditions? Furthermore, is there a principled basis on which this difficult decision can be made?

If we turn to the *United Nations Convention Against Corruption* (UNCAC), the emphasis here is on the return of property to its prior legitimate owners, or in the alternative, using returned assets to compensate victims.³⁹⁴ Uzbekistan's telecom scandal reveals the practical difficulties associated with returning assets to its prior legitimate owner. Who, in fact, is the legitimate owner of these illicit proceeds in the Uzbek case? The shareholders of the different telecommunications firms? Or were these access payments made to Takilant and Swisdorn Limited, in fact money that should have been used for the benefit of the Uzbek people (i.e. license fees/taxation), under the guardianship of the state. If the answer is yes, then how would we overcome the fact that the Uzbek state does not safeguard public funds, therefore, return of these funds to the government would likely lead to secondary forms of victimisation?

On the other hand, if instead we focus on the principle of compensating victims, which may be preferable in light of the above difficulties, we nonetheless still face numerous challenges. With respect to corruption, victimhood is not clearly defined in UNCAC. There is a risk, therefore, that by default victimhood will be defined through a white-collar crime lens, which frames criminal events as a relationship between an individual perpetrator, and individual victims, who suffer immediate loss or harm as a result of the actions being censured. This lens is incongruent with the empirical realities exhibited in cases of grand corruption, where the illicit activity is institutionalised, while the harm generated by this activity has a number of vectors.

With these challenges in mind, the concluding section of this report will focus first on disaggregating the distinctive harms generated by state-organised rackets in Uzbekistan. The aim here is to build a holistic approach to victimhood, which more accurately reflect the harmful trajectories of state-organised criminality. Attention will then be turned to the field of transitional justice, where principles and mechanisms have emerged for addressing systematic harms perpetrated by state agencies. Finally, consideration will be given to how these principles and mechanisms might be adapted in order to help create a coherent approach for managing the return of seized assets emerging from the telecoms scandal.

³⁹⁴ Chapter V, United Nations Convention Against Corruption, *United Nations Office on Drugs and Crime*, 2005.

4.1 Empirically identifying victims – A three layered approach

Once modelled, and analysed, the available evidence on the Karimova syndicate, indicate that there are, at least, three distinct categories of victim emerging from the racketeering activities.

First, there are what we might call ‘transactional victims’. This category pinpoints a specific set of individuals and entities, who suffered harm or loss as a result of transactions essential to the racketeering activity, Karimova and her associates, were alleged to be involved in. For instance, there are the companies and business owners, who experienced full or partial expropriation, under the weight of threats and/or political prosecutions. Then there are those individuals who faced violence at the hands of state security forces, as part of a broader endeavour by the Karimova syndicate to coerce an individual or entity into acting a certain way. Evidence suggests this coercive activity has taken a number of forms:

- torture, and detention
- imprisonment through a corrupted judicial process
- kidnap and ransom
- forced exile

Finally, there are the state assets, and revenues, which should have been employed for the benefit of the public, but were instead rendered into the custody of private entities linked to Karimova. In this case the public, as a collective, was the victim of these transactions.

In order for these victimising transactions to take place, the Karimova syndicate, it appears, were reliant on a series of institutional supports, that were essential to the administration of rackets. On the basis of the evidence discussed in the previous sections, the institutional structure essential to the racketeering activity had three core components:

- 1 Financial and corporate apparatus:** The racketeering activity was not nationally self-contained, it relied to a significant extent on international financial and corporate infrastructure, that ultimately proved hospitable to a range of illicit activities.
- 2 The administrative apparatus:** The rackets were heavily dependent on the syndicate’s capacity to have a series of decisions enacted by government agencies, including Cabinet, Ministries, State Committees, the General Prosecutor, and the Courts. For instance, this enabled the syndicate to control market access and commercial operations in the telecommunications sector, and also, was an important mechanism for turning different forms of coercion into financial gain.
- 3 The security apparatus:** Evidence suggests that the Karimova syndicate, for a period, was able to steer the activities of the SNB and the Presidential Security Service. This was essential to creating the general climate of fear upon which rackets rested; it also facilitated violent interventions, designed to expropriate or strong-arm businesses.

In the previous sections, it has already been noted that the Karimova syndicate was not responsible for setting up, or subverting, these different institutional levers that appear to have been essential to their illicit activity. To the contrary, the integration of state organs into organised-crime activity is a systemic reality in Uzbekistan that transcends particular groups. Indeed, it is apparent that state organs serve other syndicates, and senior power-brokers in government, in a similar fashion to the Karimova case. Nevertheless, it does not negate the fact that throughout the period examined here, the government agencies noted above formed part of the Karimova syndicate’s activity structure.

This dovetails with an essential insight, critical to comprehending grand corruption and kleptocracies. The rule of law's erosion, the instrumentalisation of the bureaucracy, and the subversion of the security apparatus, are not the product of state-failure, or insufficient capacity, although the latter might be a compounding factor. To the contrary, these deleterious aspects of the state edifice are created and sustained because they are part of an established repertoire that helps ruling cliques to accrue political power and economic advantage, which are generally entwined. Therefore, the violent organisation of state power in Uzbekistan, which in large part may be described as totalitarian, is not so much the case of a Soviet past haunting the political present, as it is a certain present commandeering the state instruments passed down from a Soviet past. This present is marked by a situation where governmental power helps to sustain the political ascendancy of ruling clans and cliques, which in turn allows them to profit through state-organised rackets. This political-economic dynamic, in turn, is the driving force that upholds a civil administration and security apparatus that is autocratic, arbitrary and unaccountable.

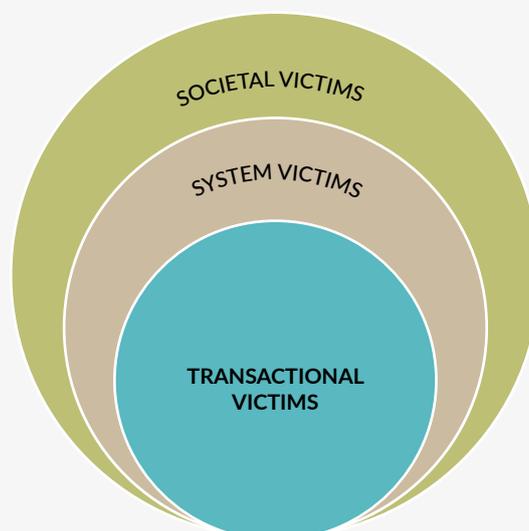
Because the arbitrary and violent dimensions of Uzbekistan's state-system is preserved in significant ways, by its deployment in corrupt political and economic processes – which the Karimova syndicate appears to be a prime example of – it is reasonable to categorise those persecuted by this administrative and security apparatus as victims of grand corruption. That is, were grand corruption no longer the principal vehicle of power and wealth accumulation in Uzbekistan, these deleterious aspects of the Uzbek state would lack contemporary purpose, and be reformed.

Framed this way, a significant constituency of Uzbek citizens and residents, who have experienced abuse, extortion, torture, and false-imprisonment at the hands of the state, can be deemed victims

of a system of grand corruption, the Karimova syndicate appears to have been both a product of, and contributor to. We might call this constituency, 'system victims', as their victimhood is not necessarily tied to transactions engineered by a particular syndicate, such as the Karimova group; but nonetheless emerges out of the system which must be maintained to support the activities of these syndicates. It is clear from the available evidence that this general system in Uzbekistan was central to securing the assets that have been frozen by the US Department of Justice. If they are successfully seized, it would appear reasonable to claim that those who have fallen victim to this predatory system deserve to be considered stakeholders in any compensation effort.

There is also an argument to be made for widening the lens of victimhood further, so it captures those affected by the damaging structural inequities which kleptocratic relations create in Uzbekistan. The environment of fear, terror and repression corruption has fostered, for example, means that no one within Uzbekistan is able to enjoy basic human rights, other than a select few in entrenched seats of power. Compounding matters, the illicit economies supported by this predatory system, have discouraged investment, stifled innovation, constricted productivity, diluted public management, and given rise to price gouging and exploitative black economies. As a result, the vast majority of Uzbekistan's population – outside of elite circles – are unable to fully realise their human capabilities through meaningful participation in economic, cultural and social life, supported through accessible health, education and professional resources. Uzbek citizens, in other words, are denied substantive enjoyment of civil and political rights, which has tangible consequences that are commensurate with the harm suffered by system and transactional victims (see 3.2). We might call this cross-section, societal victims.

32 The three layers of victimisation generated by grand corruption in Uzbekistan



In summary, we face a complex empirical reality when it comes to the question of grand corruption and victimhood in the Uzbek case. Because the criminal activity is state organised, and systemic in nature, it cannot be adequately addressed through a white-collar lens that is focused on offenses involving an individual perpetrator, and set of immediate victims, which are confronted employing the principles of retribution, deterrence, rehabilitation and restitution.

On that note, attention will now be turned to paradigms of justice that appear more sympathetic to the policy objectives underpinning international

asset return. To that end, we will selectively examine the transitional justice literature, an applied area of knowledge and professional practice, that looks to address mass social-harms generated by systemic forms of political violence, ranging from war, through to authoritarian regimes. Critiques and innovations developed within this field can potentially provide a key foundation for constructing a principled approach for the return of seized assets, particularly in contexts marked by kleptocracies. Once these principles have been outlined, attention will then turn back to the question of seized assets in the Karimova case, in order to consider how they might be applied to inform the return process.

4.2 From transitional to transformative justice

Transitional justice (TJ) emerged during the 1980s in an effort to deal with the authoritarian legacies of European and Latin American pasts, using processes that aim to prosecute wrongdoers, reveal truth, redress harm, facilitate reconciliation and prevent the recurrence of violence and rights violations.³⁹⁵ TJ has subsequently been extended to conflict, post-colonial and institutional abuse contexts, while also solidifying its focus around four core processes: (criminal) justice, truth-telling, reparation, and institutional reform.³⁹⁶ Importantly, TJ is now a framework/concept/approach/field of endeavour recognised by the UN and other international actors, and a dominant one in many post-authoritarian and post-conflict states.

Nevertheless, TJ contains flaws which undermine its ability, as a framework, to fully deal with post-authoritarian and post-conflict legacies. These flaws include its state-centric character; the marginalisation of victims; TJ's overly legalistic content; its criminological focus on individual perpetrators of specific violations; and the neglect of substantive structural changes that could better ensure reparation and non-recurrence in the long-term.

With respect to the first critique, TJ is fundamentally pitched at the level of state, particularly with international law holding states responsible for failures to investigate and remedy rights violations. This focus is welcome, in the sense that it places pressure on countries to confront systemic criminality, but in itself suffers from two weaknesses: the assumption that the state has both the capacity and willingness to engage in serious efforts to deal with the past; and the tendency of state-level processes to disenfranchise local action. In the former respect, there are appeals within TJ processes to “draw a line under the past”, “move on” and “start

afresh” – yet remnants of previous regimes (personnel and institutional) do not simply disappear. This point will be further dealt with below.

On the latter front – disenfranchising local action – the exclusion of victims is another serious consequence of TJ processes being conducted primarily at a governmental level, often with a significant role being played by international actors including foreign states, civil society organisations and governance institutions. This can generate transitional mechanisms that are unsuited to the host societies, and approaches that satisfy the international community rather than the requirement of national legitimacy.

Truth Commissions are one of TJ's major non-judicial contributions, which arise from a desire to shed light on secretive regimes and involve victims. However, even here it is argued that victims tend to participate on other's terms or not at all, with most efforts being centralised, often privileging urban dwellers, and led by national or global elites. In particular, victims are not involved in designing Truth

³⁹⁵ The definition adopted by the UN Secretary-General is: ‘The full range of processes and mechanisms associated with a society's attempts to come to terms with a legacy of large-scale past abuses, in order to ensure accountability, serve justice and achieve reconciliation. These may include both judicial and non-judicial mechanisms, with differing levels of international involvement (or none at all) and individual prosecutions, reparations, truth-seeking, institutional reform, vetting and dismissals, or a combination thereof’. (UN Secretary General, ‘Rule of law and transitional justice in conflict and post-conflict societies’, *UN Security Council: Secretary-General's Reports*, 2004, p.4, http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2004/616).

³⁹⁶ P. Arthur, ‘How “Transitions” Reshaped Human Rights: A Conceptual History of Transitional Justice’. *Human Rights Quarterly*, vol. 31, no. 2, 2009, pp. 325; A.C. Patel, ‘Transitional Justice, DDR, and Security Sector Reform’ pp262-283 in A.C. Patel, P. De Greiff, P. and L. Waldorf (eds.), *Disarming the Past: Transitional Justice and Ex-combatants*. New York, Social Science Research Council, 2010, pp. 268-71; C. Sandoval, ‘Transitional Justice: Key Concepts, Processes and Challenges’, *Institute for Democracy & Conflict Resolution – Briefing Paper*, IDCR-BP-07/11, pp. 3- 10.

Commissions, and participate instead by testifying rather than contributing to the collation, analysis or publication of the work being done. This means that there is little substantive contact beyond the days spent telling their story, and no opportunity for capacity building or deeper empowerment. In addition, victims do not have the ability to enforce Truth Commission recommendations which are easily ignored or subverted by more powerful actors,³⁹⁷ as was the case in Guatemala and Nepal when the state did little to implement the recommendations. This means that more transformative actions such as far-reaching reparations programmes or reform of abusive state institutions are unlikely to be carried out.

Beyond Truth Commissions, TJ has conventionally relied on legal forums to address the question of justice, where victims are commonly brought in as witnesses – here their experience of brutality is instrumentalised to secure convictions against principal actors. This legalistic orientation is closely linked to an individualised focus in TJ, a process modelled on corrective criminal justice systems that concentrate on prosecuting criminals as a means to both punish them and deter others.³⁹⁸ The dominance of legalistic approaches in TJ can be seen in a recent empirical study which concluded that 82% of mechanisms are related to the justice process, comprising of prosecutions and amnesties.³⁹⁹ The bulk of human and financial resources, as well as time and political capital, are therefore expended pursuing legal avenues of redress. For example, Sierra Leone's Special Court had an operating budget of \$250 million, whereas

only US\$4.4 million was available for reparations.⁴⁰⁰ In fact Lansana Gberie claims the final cost was US\$300 million, of which 70% went on paying salaries and bonuses, often to non-Sierra Leoneans. In a context of constrained resources, the choice of certain mechanisms clearly impedes the operation of others.⁴⁰¹

Restorative or reparative justice strands of TJ reject a strictly criminal justice oriented approach, conceptualising violations firstly as a harm to the community and a crime second. The objective then is to rebuild relations within the community and between victim and perpetrator. However, even then it has been argued that restorative justice schemes continue to focus on the past, seeking accountability for individual violations.⁴⁰² Accordingly, this narrow focus on specific incidents, transactions and individuals fails to elucidate the structures underpinning violations, nor does it uncover the important roles played by facilitators, beneficiaries and bystanders.⁴⁰³

Critique of TJ's individualised focus applies also to its truth and reparative components. The remit of Truth Commissions is to extract individuals' stories; while this is a vital building block for elucidating general patterns of structural or collective harms, many reports remain a compendium of individual cases rather than a deeper analysis of the social foundations underpinning violence. Furthermore, reparation payments are often made in a short-term and individually focused way, based on incidents of direct violence or violations of civil and political rights. So while reparations are, in theory, designed

³⁹⁷ M. Evans., 'Structural Violence, Socioeconomic Rights, and Transformative Justice', *Journal of Human Rights*, vol. 15, no. 1, 2016, p.5.

³⁹⁸ L. Arbour, 'Economic and Social Justice for Societies in Transition'. *New York University Journal of International Law and Politics*, vol. 40, no. 1, 2007, p. 2; L. Waldorf, 'Anticipating the past: Transitional justice and socio-economic wrongs'. *Social & Legal Studies*, vol. 21, no. 2, 2012, pp. 171-186; E.A. Posner and A. Vermeule, 'Transitional Justice as Ordinary Justice', *Harvard Law Review*, vol. 117, no. 3, pp. 761-825; D. Dyzenhaus, 'Leviathan as a Theory of Transitional Justice' in M.S. Williams, R. Nagy and J. Elster, (eds) *Transitional Justice*. New York, New York University Press, 2012, pp.180-217.

³⁹⁹ T.D. Olsen et al., *Transitional Justice in Balance: Comparing Processes, Weighing Efficacy*. Washington, DC, *United States Institute of Peace Press*, 2010, p.39.

⁴⁰⁰ 'Evaluating Transitional Justice', *Oxford Transitional Justice Research Seminar Series*, [podcast], Oxford University, 2015, <https://podcasts.ox.ac.uk/evaluating-transitional-justice> (accessed 13 February 2017).

⁴⁰¹ L. Gberie, 'The Special Court for Sierra Leone Rests – for Good', *United Nations*, April 2014, <http://www.un.org/africarenewal/magazine/april-2014/special-court-sierra-leone-rests-%E2%80%93-good> (accessed 13 February 2017).

⁴⁰² Z. Miller, 'Effects of Invisibility: In Search of the "Economic" in Transitional Justice', *International Journal of Transitional Justice*, vol. 2, no. 3, 2008, p. 275; K. Clamp, *Restorative Justice in Transition*, London, Routledge, 2014, p.34-35.

⁴⁰³ Z. Miller, 'Effects of Invisibility: In Search of the "Economic" in Transitional Justice', *International Journal of Transitional Justice*, vol. 2, no. 3, 2008, pp. 280-284; R. Mani, 'Rebuilding an inclusive political community after war'. *Security Dialogue*, vol. 36, no. 4, 2005, pp. 520-521; K.K. Thomason, 'Transitional Justice as Structural Justice', in C. Corradetti et al (ed.), *Theorizing Transitional Justice*, Farnham, Ashgate, 2015, p.75.

to provide corrective and distributive justice, define guilt and victimhood, identify power shifts and redefine citizenship,⁴⁰⁴ they ultimately fail to redistribute wealth or power on a scale that could truly reduce systemic inequalities or challenge dominant power relations.⁴⁰⁵

This failure is also linked to the other factors enumerated above, together demonstrating the major historical weakness of TJ, is its unwillingness or inability to properly diagnose and confront underpinning structures that sustain different forms of marginalisation, exploitation and predation, at the heart of contention, conflict and insecurity. Indeed, TJ has traditionally focussed on redressing direct violence and violations of civil and political rights (CPR): massacres, disappearances, tortures. However, these CPR violations are indivisible from violations of economic, social and cultural rights (ESCR) legally, conceptually and practically, a point that has been noted by critical TJ scholarship,⁴⁰⁶ and in non-TJ work.⁴⁰⁷

Therefore, it is important to build transitional frameworks which are capable of identifying the deeply embedded social processes within a regional context that: rigidly allocate privilege on the one hand, and disadvantage on the other; distribute opportunities for self and community advancement, along opaque, non-democratic lines; permit certain forms of exploitation, which significantly diminish

the dignity of its participants; all of which as a totality, are among the key forces underpinning conflict, insecurity and repressive state violence.

Structural violence is a category that has emerged within the peace-making literature to frame these systemic processes, that underpin more immediate forms of violence, corruption and insecurity. To that end, structural forms of violence differs from direct violence in that it occurs without a clear subject-action-object relation.⁴⁰⁸ Instead, it draws attention to the ways in which social systems shape the ability of individuals or groups to access rights, services and opportunities, or even to meet basic needs.⁴⁰⁹ It also points to the way in which headline-grabbing incidents of gross human rights violations and direct violence are normally sustained by deeper hierarchies of power that maintain highly inequitable societal relations.⁴¹⁰

In short, structural violence rests on three major pillars: social marginalisation, political exclusion and economic exploitation.⁴¹¹ It captures, in other words, (1) the different ways in which sections of the population face social exclusion based on gender, race, belief and/or class; (2) how political power is distributed and pooled through institutional arrangements, creating significant differentials in capacity and accountability; and, (3) the methods by which capital, resources and labour come together in a structured fashion, creating

⁴⁰⁴ R. Mani, 'Rebuilding an inclusive political community after war', *Security Dialogue*, vol. 36, no. 4, 2005, pp.511-526; I. Muvingi, 'Sitting on Powder Kegs: Socioeconomic Rights in Transitional Societies', *The International Journal of Transitional Justice*, vol. 3, no. 2, 2009, p. 180; P. Gready, P and S. Robins, 'From Transitional to Transformative Justice: A new agenda for practice', *International Journal of Transitional Justice*, vol. 8, no. 3, 2014, pp. 346-347;

⁴⁰⁵ Z. Miller, 'Effects of Invisibility: In Search of the "Economic" in Transitional Justice', *International Journal of Transitional Justice*, vol. 2, no. 3, 2008, p. 278-85; I. Muvingi, 'Sitting on Powder Kegs: Socioeconomic Rights in Transitional Societies', *The International Journal of Transitional Justice*, vol. 3, no. 2, 2009, p. 180; W. Lambourne, 'Transitional Justice and Peacebuilding after Mass Violence', *The International Journal of Transitional Justice*, vol. 3, no.1, 2009, pp.41-42; M. Evans, 'Structural Violence, Socioeconomic Rights, and Transformative Justice', *Journal of Human Rights*, vol. 15, no. 1, 2016, p.7.

⁴⁰⁶ P. Gready, *The Era of Transitional Justice: The Aftermath of the Truth and Reconciliation Commission in South Africa and Beyond*, Abingdon, Routledge, 2011, p.17; L.J. Laplante, 'Transitional justice and peace building: diagnosing and addressing the socioeconomic roots of violence through a human rights framework', *International Journal of Transitional Justice*, vol. 2, no. 3, 2008, pp. 331-355.

⁴⁰⁷ J. Galtung, 'Violence, peace, and peace research', *Journal of Peace Research*, vol. 6, no. 3, 1969, pp. 167-191; P. Farmer, 'On Suffering and Structural Violence: A View from Below', *Daedalus*, vol. 125, no. 1, 1996, pp. 261-283.

⁴⁰⁸ J. Galtung, 'Violence, peace, and peace research', *Journal of Peace Research*, vol. 6, no. 3, 1969, pp. 167-191..

⁴⁰⁹ P. Farmer, 'On Suffering and Structural Violence: A View from Below', *Daedalus*, vol. 125, no. 1, 1996; M. Vorobej, 'Structural Violence', *Peace Research*, vol. 40, no. 2, 2008, p. 88; P. McAuliffe, 'Structural Causes of Conflict and the Superficiality of Transition', in Corradetti, C., et al (eds.) *Theorizing Transitional Justice*. London, Ashgate, 2015, p. 93.

⁴¹⁰ T. Pasipanodya, 'A Deeper Justice. Economic and Social Justice pp. 380-383; R. Nagy, 'Centralizing Legal Pluralism? Traditional Justice in Transitional Settings' in C.L. Sriram, et al (eds.), *Transitional Justice and Peacebuilding on the Ground: Victims and Ex-combatants*. London, Routledge, 2013, pp. 88-89.

⁴¹¹ P. Gready, *The Era of Transitional Justice: The Aftermath of the Truth and Reconciliation Commission in South Africa and Beyond*, Abingdon, Routledge, 2011, p. 15.

substantive inequities and inequalities in wealth. None of which is a natural phenomenon – they are engineered socially, and hinge as much on agency, albeit on a different socio- temporal scale, as the direct forms of violence that sustain conflict and authoritarian regimes.

Furthermore, the harm produced by structural violence is no less serious, or depersonalised, than direct violence. For instance, Evans argues ‘a person’s life expectancy may be reduced by an act of direct, intended personal violence or by the failure of a system to provide adequate care for those with treatable illnesses’.⁴¹² For the victim, the end result – loss of life – is the same. Therefore, prioritising one modality of engineered violence over the other, at least from a social harm perspective has no compelling basis – especially given their entwined characteristics.

This critique of TJ, made from the vantage point of structural violence, has particular relevance to corruption. For example, we have observed in

Uzbekistan how state-organised rackets use both physical violence, and property expropriation, which has significant impacts on the health, wellbeing and opportunities available to the victims of these illicit transactions. However, at the same time, these rackets are symptomatic of an institutionalised culture which sees wealth and resources systematically syphoned away from important forms of social consumption, such as public health and education, while maintaining a widely feared surveillance and repressive apparatus. This overarching system that sustains rackets, in turn, has deleterious impacts on the Uzbek population, that are commensurate with the violence experienced by those persecuted directly through rackets.

In recognition of the nexus between structural and direct violence, a growing strand of thought centring on the concept of transformative justice has emerged. This framework aims to bring about transitional methods capable of tackling the nexus holistically, thus overcoming observed flaws in TJ models. It is to this framework we will now turn.

⁴¹² M. Evans, ‘Structural Violence, Socioeconomic Rights, and Transformative Justice’, *Journal of Human Rights*, vol. 15, no. 1, 2016, p. 3.

4.3 A transformative model of justice

Transformative justice places structural violence at the centre of its analysis, and aims to seriously counter the forms of social marginalisation, political exclusion and economic exploitation existing in many transitional states, as a key step to reducing both structural and direct violence. To that end, transformative justice is best defined as ‘transformative change that emphasises local agency and resources, the prioritisation of process rather than preconceived outcomes and the challenging of unequal and intersecting power relationships and structures of exclusion at both the local and the global level’.⁴¹³

Critically, transformative justice rejects the imposition of a global template, which can be applied in diverse societies. In fact, its proponents argue that a single national model of justice can even be problematic given the economic, political, social and cultural dynamics that shape experiences of violence or authoritarian regimes, often assume specifically localised form. It is also essential, from a transformative justice perspective, for initiatives that address systemic forms of exclusion and marginalisation to have deep public participation. Importantly, this entails that victims of direct and structural violence participate as key stakeholders at all stages of the transformative process. This will include diagnosing the problem, along with, designing, implementing and monitoring reparations and reformative measures.

Such deep engagement fulfils an empowerment function by building the capacity and confidence of marginalised individuals, groups and communities to participate more fully in emerging social and political spaces. An empowered civil society, in turn, is central to initiating new democratising processes, and advocating for resources from the

central state.⁴¹⁴ Indeed, bottom-up initiatives can subsequently be scaled-up and transferred to other sectors and localities by building constructive alliances with interested stakeholders.⁴¹⁵ For instance, rural communities in parts of Colombia are reversing the existing transitional dynamic by convening assemblies and inviting state representatives to dialogue, rather than travelling to appear in state-organised forums.⁴¹⁶

Drawing on this victim-centred approach, transformative justice focuses primarily on the fourth pillar of TJ,⁴¹⁷ institutional reform. Changes here are more likely to have deep and lasting consequences, as opposed to legalistic and routinised processes of prosecutions, truth-telling and individualised reparations. That said, transformative justice does not take institutional reform as a goal in itself, but rather as a key starting point for addressing social, political and economic exclusion, and improving overall living conditions. It creates a context for rethinking the exclusionary practices and systems that have made transitional societies inequitable places prone to structural and direct violence.

⁴¹³ Gready and Robins, From Transitional to Transformative Justice: A new agenda for practice, *The International Journal of Transitional Justice*, Vol. 8, no. 3, 2014, p. 340.

⁴¹⁴ I. Muvingi, ‘Sitting on Powder Kegs: Socioeconomic Rights in Transitional Societies’. *The International Journal of Transitional Justice*, vol. 3, no. 2, 2009, p. 180; S. Robins, *Families of the Missing: A Test for Contemporary Approaches to Transitional Justice*, New York / London, Routledge, 2013, p. 210.

⁴¹⁵ Gready and Robins, From Transitional to Transformative Justice: A new agenda for practice, *The International Journal of Transitional Justice*, Vol. 8, no. 3, 2014, pp. 360-361; Eriksson, A., *Justice in Transition: Community restorative justice in Northern Ireland*, Portland, Willan Publishing, 2009, pp. 141-148.

⁴¹⁶ D. McGill, ‘Different Violence, Different Justice? Taking Structural Violence Seriously in Post- Conflict and Transitional Justice Processes’. *State Crime Journal: Special Issue on Post-Conflict Reconstruction, the Crimes of the Powerful and Transitional Justice*, Vol. 6, no. 1, 2017, pp.79-101.

⁴¹⁷ C, Sandoval, ‘Transitional Justice: Key Concepts, Processes and Challenges (Briefing Paper)’, *Institute for Democracy & Conflict Resolution*, IDCR-BP-07/11, 2011, pp.3-10.

To effect this rethinking and reform process, the effectiveness of transitional initiatives are assessed on the basis of their performance in three distinct areas: diagnosis, process and outcome.⁴¹⁸ The diagnostic dimension requires that transitional initiatives engage in comprehensive analysis that considers the historical roots and political economy of the existing situation, and any lessons learnt from past initiatives in the region, or those undertaken in a different, comparable place. The process dimension calls for meaningful involvement of victim communities as active agents in designing transitional policies and practices, in a manner that values local knowledge, understandings and manners of working. Processes that fulfil this participatory function can be considered transformative, as they contain the potential to alter the basis of existing social relationships and challenge the decision-making monopoly of dominant groups, and empower wider civic competence.⁴¹⁹ Operationally, this may entail removing cultural, financial or social barriers that prevent meaningful inclusion, in addition to building the capacity and confidence of marginalised

communities and individuals to participate more fully in society. The outcome dimension recognises that transformative initiatives should have tangible positive and context-specific effects on everyday life, such as creating more equitable societal structures or widening access to social and economic opportunities.

A transformative justice matrix has been developed by McGill, as a tool to for enhancing initiative design in the above respects.⁴²⁰ It invites practitioners to critically reflect on initiative design and focus, through a series of questions, framed from a diagnostic, process and outcome vantage point.⁴²¹ In so doing it provides an evaluative tool for critically reflecting on each stage of the transformative initiative, and its success in building mechanisms that address the nexus between structural and direct violence, through victim oriented transitional processes. The matrix provided below has been modified for an asset recovery initiative in Uzbekistan. In the next section we will consider its applied relevance for the Karimova case.

418 D. McGill, 'Different Violence, Different Justice? Taking Structural Violence Seriously in Post- Conflict and Transitional Justice Processes'. *State Crime Journal: Special Issue on Post-Conflict Reconstruction, the Crimes of the Powerful and Transitional Justice*, Vol. 6, no. 1, 2017, pp.79-101

419 P. Lundy and M. McGovern, 'Whose justice? Rethinking transitional justice from the bottom up'. *Journal of Law and Society*, vol. 35, no. 2, 2008; P. Gready, *The Era of Transitional Justice: The Aftermath of the Truth and Reconciliation Commission in South Africa and Beyond*, Abingdon, Routledge, 2011.

420 D. McGill, 'Different Violence, Different Justice? Taking Structural Violence Seriously in Post- Conflict and Transitional Justice Processes'. *State Crime Journal: Special Issue on Post-Conflict Reconstruction, the Crimes of the Powerful and Transitional Justice*, Vol. 6, no. 1, 2017, pp.79-101.

421 Ibid.

33 Transformative Justice Matrix (modified for Uzbekistan)

1 DIAGNOSIS & AIMS

- Who created the (asset return) initiative?
 - What problem does the initiative target?
 - What causes does it identify?
 - Are asymmetrical power relations acknowledged?
 - Are the existence of exclusions and inequities acknowledged?
 - What are the proclaimed aims?
 - Who are the initiative's intended beneficiaries?
 - How are beneficiaries defined and identified?
-

2 DESIGN & PROCESS

- Is there local community involvement in designing the initiative?
 - Are local needs/concerns addressed?
 - How is participation in the initiative ensured?
 - What form does participation take?
 - At what point in the process is participation taking place?
 - Is there capacity building to enable participation?
 - Are practical or financial obstacles to participation removed?
 - Is participation open only to direct beneficiaries?
 - How are participants selected?
 - Are they representative of the local community in terms of race/gender/class?
-

3 OUTCOMES (potential indicators – related to groups suffering direct and structural violence)

1. Direct Violence

- Have extortionate practices generally reduced?
- Have killings/kidnappings/threats against businesses reduced?
- Has the use of forced labour been reduced?

2. Socio-political

- Are civil society organisations more active in commenting on and participating in initiatives designed to enhance public integrity?
- Have media organisations been allowed more space to hold accountable both government and the private sector?
- Do local communities have greater input in defining local priorities, overseeing spending and participating in good governance forums?
- Do local communities have greater input in decision making bodies?
- Has participation in the initiative increased wider socio-political mobilisation?
- Do local communities and the broader diaspora have greater input into the transnational governance of financial flows and corporate infrastructure underpinning corruption in Uzbekistan?

3. Economic

- Is there evidence of decreasing incidents of bribery?
- Are markets, and state industries, practically governed in a more transparent, accountable fashion?
- Have industries marked by forced labour practices been reduced?
- Is there a more equitable distribution of wealth?
- Have employment opportunities and incomes increased?
- Has access to and ownership of resources broadened?
- Are necessary economic inputs available?
- Has necessary infrastructure improved?
- Have inequalities reduced?

4. Socioeconomic

- Has access to education improved?
- Have literacy levels improved?
- Have average years in education increased?
- Have education inequities reduced?
- Has access to health services improved?
- Have health inequities reduced?
- Have health outcomes improved state-wide?

4.4 Applying the transformative model to Uzbekistan

Put succinctly, the experience of TJ warns against justice oriented initiatives that abstract illicit events from the broader structural realities they are reliant on, and sustain. It also warns against combatting human rights violations and social harms using burdensome legal procedures, that marginalise the populations who are expected to benefit from transitional measures, thus reproducing the cycle of exclusion.

If we now return to the question of asset recovery, set against the backdrop of the US Department of Justice action against assets linked to Gulnara Karimova, a number of points can be made, taking into account both the lessons of TJ, and the principles advanced by transformative justice proponents.

First, it would be beneficial – from a participatory perspective – if the seized assets were transferred into an institutional context, where civil society engagement could take place, so victims have a real role in (a) diagnosing the problem; (b) designing how returned assets are deployed; and (c) formulating a set of desirable initiative outcomes. The category, victim, here captures transactional, system and societal victims, who as a whole, must be empowered to share experiences and develop solutions, that can remedy the direct violence they faced, while also devising mechanisms that can incrementally impact upon structural forms of violence in the long term.

This objective would appear to disqualify – at least in the short term – returning the assets to the Uzbek state, which in its present iteration would be unable to oversee this democratic conversation, leaving aside the fact its institutions remain unreformed perpetrators of the illicit activities documented in the previous sections. An alternative approach would be to create a new space where an inclusive, democratic conversation could occur, through the vehicle of an independent trust. Providing it was underpinned by robust oversight mechanisms, a representative board from civil society, and transparent reporting requirements, a trust could create the institutional context where complex policy questions are handled, free from state-centric pressures.

Accordingly, the trust should not be conceived of as an implementing vehicle for a prescribed process of asset return. This would court the same problems besetting TJ processes that are designed by global stakeholders, without the requisite forms of bottom-up participation from victims/survivors – namely, the asset-return process would lack legitimacy, nor would it offer avenues for empowering victims, in ways that are capable of addressing long-term transformative aims. Accordingly, the trust should be framed as a democratic space for engaging victims in a constructive conversation on desirable implementing processes, and initiative outcomes.

This raises the question of how victims can be engaged, when governed by an authoritarian state. First, it ought to be noted that a significant number of transactional, system and societal victims, have been exiled or ejected from Uzbekistan – this stakeholder group is a readily accessible resource for a victim oriented, asset return initiative if properly resourced and supported. Second, consideration can also be given to methods for engaging citizens in Uzbekistan, drawing on secure communications technology, and discussion forums in neutral locations, where stakeholders could speak with a substantively lowered risk of repercussion. Third, creating a democratic space for victims, need not mean the exclusion of Uzbek state officials. It is important, where possible, that the conversations and actions facilitated through the trust, take into account state initiated reform efforts, through constructive dialogue.

Ultimately, if asset return is to be leveraged for maximum impact, the trust must be instrumentalised as a mechanism for generating a safe space where victims can be engaged, in diagnosing the problem, setting desirable outcomes, and designing implementing measures. Furthermore, a transformative justice matrix, such as the one set out in the previous section, can be employed as a tool for holding the trust to account, ensuring the constituting processes governing asset return remain focused on addressing the mutually reinforcing goals of empowering victims, repairing harm, and addressing the structural forces that sustain systems of grand corruption.

This proposal represents a change in tact for asset return procedure. In effect, it involves shifting asset recovery to a different modality of justice, moving it away from a white-collar crime paradigm, to one grounded in transitional, transformative and restorative principles of justice. This is a move that appears sympathetic to the broader policy objectives underpinning asset return. Indeed, it will potentially allow asset recovery to become a substantive practice that seriously confronts the systems and processes that underpin grand corruption in regions burdened by kleptocracies, by making victims and civil society the driving force guiding the remediation and reform process.

“Victims” means persons who, individually or collectively, have suffered harm, including physical or mental injury, emotional suffering, economic loss or substantial impairment of their fundamental rights, through acts or omissions that are in violation of criminal laws operative within Member States, including those laws proscribing criminal abuse of power’.

UN Declaration of Basic Principles of Justice for Victims of Crime and Abuse of Power (1985)



5. Conclusions and Recommendations

On the basis of the evidence outlined in this report – if its accuracy can be accepted – a number of key conclusions may be drawn that illuminate fundamental features of corruption in Uzbekistan, which have critical implications for how these practices are confronted.

In particular:

- 1 The activity of the Karimova syndicate is most accurately framed as state-organised crime. Karimova's orders were willingly implemented by state agencies, and were part of a state sanctioned culture of racketeering, corruption, violence and impunity.
- 2 State-organised crime as it is practised in Uzbekistan, is a form of grand corruption. The constitutive activities of which are dependent on the systematic persecution of particular civilian populations. Most directly, those who have successfully established profitable businesses are targeted, along with their family and employees. However, it is also apparent that the Uzbek national population as a whole are persecuted by a regime that employs state terrorism, to buttress political power, and the illicit economies this power is instrumental to. Without a general climate of fear, and paranoia, the illicit economies essential to state-organised crime in Uzbekistan, would be difficult to administer.
- 3 Given that grand corruption in Uzbekistan is enacted through the persecution of particular groups, and the population as a whole, employing a range of inhumane tactics, collectively these acts constitute gross human rights violations.
- 4 These gross human rights violations so integral to state-organised crime in Uzbekistan, rest on a transnational infrastructure of shell companies, financial institutions, multinational companies and professional service providers.
- 5 Notably the UK and its overseas territories appear to be arguably one of the most critical transnational spokes facilitating these gross human rights abuses.

On the basis of the above empirical conclusions, this report makes a number of core recommendations for enhancing the administration of justice in the Karimova case. These core recommendations include:

- 1 Caution should be exercised when attempting to deliver justice through a white-collar crime lens that is focused upon punishing individual deviance, through state-centric processes. Such a frame will not fully address the causes underpinning the offending; it risks entrenching the marginalised position of victims; and, it will generate secondary forms of victimisation if seized assets are returned to the Uzbek state.
- 2 An effective and urgent response to the types of illicit activity documented in the Karimova case, must begin with special measures directed towards ensuring that no jurisdiction beyond Uzbekistan can be used to organise such conduct, or launder its proceeds. This requires international cooperation, compliance from the private sector, and robust action against those actors who fail to prevent their institution or jurisdiction from being used as a conduit for state-organised crime.
- 3 Civil asset forfeiture is arguably one of the more powerful tools available for delivering justice in the Karimova case. First, seized proceeds of crime can buttress transformative measures designed to repair the harm suffered by victims. Second, a portion of these funds can be directed towards funding initiatives designed to prevent reoccurrence. Given that a vibrant, active civil society is argued to be an essential bulwark against grand corruption, their involvement should be central to any such initiative.

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- 4 The conduct being confronted through asset forfeiture should be framed as state organised and systemic, rather than individually organised and episodic. Furthermore, this systematic, state organised activity involves the persecution of distinct groups, in addition to a broader cross-section of society victimised through a regime of state surveillance and repression essential to illicit economies in Uzbekistan. Both groups are, accordingly, important stakeholders in the justice making process.
 - 5 The political-economic arrangements essential to state-organised crime in Uzbekistan, are wedded to different forms of structural violence, including, for instance, democratic restrictions that preclude the public from meaningfully participating in spaces of political power; labour regimes that violate fundamental worker rights; rackets which prevent private sector actors from enjoying market freedoms essential to growing businesses; and, models of state asset allocation that reduce productivity and deny the public essential services. As a result, reform and justice need to be pursued in a strategic manner, that acknowledges their mutual dependency.
 - 6 The principles of transformative justice could usefully inform how stolen assets are returned to victim populations. In short, a transformative approach to asset-forfeiture would require processes oriented towards (a) redress of the diverse social harms suffered by victimised populations, (b) securing non-reoccurrence, and (c) assisting movements and initiatives that can instigate reforms which confront structural violence. To achieve these ends, a transformative approach encourages the engagement of victim groups in the design of enacting mechanisms for asset return, and defining desirable outcomes. This promotes a return process that is bottom-up, victim oriented, context driven and calibrated to important systemic changes.
 - 7 It would be beneficial – from a participatory perspective – if the seized assets were transferred into an institutional context, where civil society engagement could take place. This would appear to disqualify – at least in the short term – returning the assets to the Uzbek state, which in its present iteration would be unable to oversee such a democratic conversation, leaving aside the fact its institutions remain unreformed perpetrators of the illegitimate activities documented in this report.
 - 8 An alternative approach would be to create a new space where an inclusive, democratic conversation could take place, through the vehicle of an independent trust. Providing it was underpinned by robust oversight mechanisms, a representative board from civil society, and transparent reporting requirements, a trust could create the institutional context where complex policy questions are handled, free from state- centric pressures. It would also generate a safe space where victims can be engaged, in diagnosing the problem, setting desirable outcomes, and designing implementing measures.

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‘You f*ing Americans. Who are you to tell us, the rest of the world, that we’re not going to deal with Iranians’**

Standard Chartered Bank, Group Executive Director



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