

HOW DIRTY MONEY IS
CONQUERING THE WORLD



KLEPTOPIA

TOM BURGIS

فروشگاه کتاب الکترونیک باکتابام

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HARPER

An Imprint of HarperCollinsPublishers

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Dedication

For Camilla

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A Note on Truth

This is a true story. Each of the facts of which it is composed comes from an interview or a document, corroborated wherever possible by other sources. Where a character is described as thinking something, that is because they told the author their thoughts or otherwise recorded them. Every character was given a chance to check facts before publication. Where there are conflicting accounts of an event, the version that appears most probable is given in the text, with the dispute discussed in the notes. The notes contain a description of the source of every significant piece of information in the book. In the cases when sources would only speak on condition of anonymity, they are described with as much detail as possible without making them identifiable. Occasionally, all that can be said is that the source of a particular fact is a confidential interview. This is because the source in question could face reprisals for revealing what he or she knew. While anonymous sources are not ideal, especially in a book about the nefarious power of secrecy, it is important for those whom others would wish to silence to have their voice in this way, subject to the author's best efforts to test their credibility. The truth has had a rough time in recent years. The author's endeavour here has been to lay open the foundations on which this story is built in such a way that the reader might both believe it and enjoy it.

Cast of Characters

In London

Nigel Wilkins Head of compliance at the London office of the Swiss bank BSI, later on the staff of the City of London regulator, the Financial Conduct Authority

Charlotte Martin Nigel's companion

Trefor Williams Ex-UK special forces, investigator at the private intelligence firm Diligence

Ron Wahid Bangladeshi-American founder of the private intelligence firm Arcanum

Neil Gerrard Lawyer at the City firm Dechert

The Trio

Alexander Machkevitch aka **Sasha** Kyrgyz-born member of the Trio of Central Asian billionaires behind Eurasian Natural Resources Corporation (ENRC)

Patokh Chodiev Uzbek-born member of the Trio

Alijan Ibragimov Kyrgyz-Uighur member of the Trio

Mehmet Dalman British-Cypriot City financier, ENRC director then chairman

Victor Hanna The Trio's man in Africa

Shawn McCormick Ex-US intelligence official hired by ENRC

The khan

Nursultan Nazarbayev Ruler of Kazakhstan since 1989, president until 2019 then chair of the Security Council

Rakhat Aliyev aka **Sugar** Nazarbayev's son-in-law, later in exile

Timur Kulibayev Nazarbayev's other son-in-law, billionaire

Kenes Rakishev Kulibayev's protégé

The oligarch

Mukhtar Ablyazov Kazakh ex-minister, tycoon and founder of BTA Bank

Peter Sahlas Canadian lawyer retained by Ablyazov

Madina Ablyazova Ablyazov's daughter, in Geneva

Ilyas Khrapunov Madina's husband

Leila Khrapunova Kazakh businesswoman, Ilyas's mother

Viktor Khrapunov Kazakh politician, Ilyas's stepfather

Bota Jardemalie Harvard-trained Kazakh lawyer at BTA Bank

The gangsters

Semyon Mogilevich aka **Seva** aka **the Brainy Don** Moscow's premier criminal moneyman

Sergei Mikhailov aka **Mikhas** Boss of the Solntsevskaya Bratva, a Russian crime syndicate

In Africa

Billy Rautenbach Zimbabwean businessman, backer of Robert Mugabe's regime

Robert Mugabe Ruler of Zimbabwe, 1980–2017

Emmerson Mnangagwa aka **the Crocodile** Mugabe's security chief, then successor

Joseph Kabila President of the Democratic Republic of Congo, 2001–2019

Augustin Katumba Mwanke Kabila's right-hand man, died in 2012

Dan Gertler Israeli mining tycoon close to Kabila and Katumba

In North America

Felix Sater Russian-American fraudster, money launderer, spy and real estate developer

Tevfik Arif Kazakh founder of the New York real estate venture where Sater worked, Bayrock

Boris Birshtein Soviet-era moneyman residing in Toronto

Alex Shnaider Russian-Canadian billionaire, Birshtein's protégé and, for a time, son-in-law

Epigraph

Every man lives his real, most interesting life under cover of secrecy

Anton Chekhov,
The Lady with the Dog

Part I

Crisis

The secret of a great fortune with no apparent cause is a crime that has been forgotten because it was done properly

Honoré de Balzac,
Old Goriot

The Thief

Kensington, January 2008

Moral courage, yes, but it was also mischief, a quality discernible in the creases at the corners of his eyes, that made Nigel Wilkins decide to steal the secrets of a Swiss bank. It was the year when everything changed, 2008, the end of the old days. Forty years he had worked in banking, though he had never really been a banker. Not the way the bankers themselves used the word, nor the way other people had lately started using it. For one thing, he was much too shy. He could shoot a look of granite through his spectacles. Yet behind it lay not simply the stifled arrogance of the cleverest man anyone who knew him had ever met, but also an unbearable awkwardness. No self-respecting master of the universe would be seen dead in one of Nigel's frilly shirts. Nor would they yield to baldness as gamely as Nigel had, consigning the last of his once voluminous locks to a small cardboard box labelled 'Nigel's hair' that he displayed on a shelf in his flat. They probably wouldn't have thought about money as much as Nigel had. Thought about it, as opposed to just multiplying it. In his teens, Nigel had been enthralled by the Labour prime minister Harold Wilson, who terrified the establishment with his long Yorkshire vowels and his way of explaining in a straightforward way the meanings of money: who had it, how they got it and why the great many who lacked it might have a decent claim to a bigger share of it. Nigel had started investing his pocket money, as others experimented with a chemistry set or crueller ones held a magnifying glass over a slug. Mathematical ideas that made practical sense, that was what he liked. He thought about becoming an engineer but his temperament needed a discipline that had more room for disagreement and debate. He found economics: the art of telling money's stories.

Nigel was freer than many in his world because, although he had made plenty of it and parted with little of it, money had no hold on him. The things that others were compelled to buy were for him an encumbrance: mobile phones, televisions. He preferred his old radio and the antediluvian three-piece suite a friend had given him. During the war, his father, Arthur Wilkins, had worked in a factory making armoured vehicles in Basingstoke, a humdrum town west of London. Afterwards, he became a Methodist lay preacher. Nigel Charles, his second and final child, was born on the hinge of the century, March 19, 1950, into a generation for whom frugality, after it ceased to be the only option, became either a penance for others' greater sacrifices or a curse to be lifted with material excess. Nigel's great treat would be a first-class ticket for a long train ride, mainly to savour the complimentary scrambled eggs. Perhaps a bit of cake later, after listening to an edifying talk. At his flat – four floors up in Kensington, a brisk walk from Buckingham Palace or the royal parks, less brisk when his chest gave him trouble – he would repair rather than replace. On the mantelpiece stood a photograph of him on a rare holiday, aboard a canal boat. The bookshelves were full of economics, finance, international law. *Behind the Corporate Veil, Infectious Greed, What is Sarbanes-Oxley?*. If these were the tools of his vocation, the Thomas Hardy novels were his solace. He turned to them so often that the titles on their cracked spines were scarcely legible. *Jude the Obscure* was his favourite. Perhaps he saw himself in Jude. Perhaps he felt the meaning of all those heavy books about the functioning of wealth when he reread the passage about the three children. They are found hanging beside a note that reads, 'Done because we are too menny.' Nigel had a single self-help volume, too: *Overcoming Depression*. It looked as though it had never been opened.

Nigel had been a quiet child. But with adulthood had emerged a distrust of authority that could approach contempt. For university, he had moved to the ideal place to indulge this antagonistic streak: Manchester, a city whose inhabitants made a joyful art of insubordination and were prepared to suffer for it. They spoke of the Peterloo massacre as if they remembered it. They took pride in the workers who had accepted destitution as the price of standing against the slave-owning Confederate suppliers of the cotton for their mills. It was Manchester that had engendered the Industrial Revolution and all that flowed from it, including the Labour Party, whose branch in Kensington, where the average income was the highest in the land, would have in Nigel an unwavering candidate in its quixotic campaigns to win control of the municipal council. His comrades noted his effectiveness as a needler of the powerful and called him the Exocet, a missile that is hard to detect until it detonates.

Nigel would joke – a half joke, it seemed to those who heard it – that he couldn't say what he did for a job because it was secret. He had studied criminology as well as economics, but for most of his career had done nothing more cloak-and-dagger than economic research. Bankers would hire him to suggest what the next chapters of money's stories might be and he would sketch the scenarios, projecting himself into the mind of the classical economist's stock character, rational and law-abiding. Then he had taken a position in the enforcement division of the Financial Services Authority, the body that oversaw British banks. Here, he thought at first, he had finally found his natural habitat. Nigel was a stickler, the sort who never let you get things done the easy way. At the FSA, he had soon despaired of what he felt was a reluctance to go after financial crime.

Happily, at just that moment there appeared an opportunity for mischief, the sort that brought forth Nigel's flat, tight-lipped smile. But Charlotte Martin was anxious. She knew Nigel better than anyone did. They had met through one of the campaigns Nigel conducted against those he perceived to abuse their power, in this case the landlords of London's leaseholders. As far as Nigel was concerned, the landlords were using feudal rights to blackmail their tenants, Charlotte among them. He learned letting law inside out, and bombarded the property barons with their own subclauses and small print, marshalled in letter after excoriating letter. Charlotte was tall and slender. Her voice carried a hint of her Essex roots. She had a smile that emerged slowly to illuminate her whole face. They became a couple for a while, thereafter platonic soulmates. Even to her, Nigel was often inscrutable. She felt she was constantly trying to read him, to decipher him. But when he told her that he had taken a job as something called a 'compliance officer' at the London office of a Swiss bank, she was sure it would bring him no good. Swiss bankers would 'push his buttons', she warned him. Nigel was having none of it. This was his chance to get on the inside: he would be a watchdog in sheep's clothing. Compliance officers had been around for a while but following a procession of corporate scandals – Enron, WorldCom and the rest – they became ubiquitous, the designated conscience of big business. In practice, what compliance officers at banks usually did was attempt to swathe the organisation in a veil of rectitude without restricting bankers' moneymaking in any meaningful way. Nigel's approach would be precisely the opposite. 'I can force them to comply,' he told Charlotte. His eagerness did nothing to put her at her ease. She told him again: don't go to BSI. But he went and, for a while, no ill came of it.

That had been two years ago, back before everything changed. But Nigel could see what was coming now. Finance – making money from money – was

collapsing, for the moment at least. Twenty-two days into 2008, the US Federal Reserve made emergency cuts to interest rates. On every surface of Nigel's flat lay a clipping from the business pages or a lengthy proposal to constrain financiers. He had positioned one of the wheezy armchairs with its back to the large window, so that the clear light before dusk would stream over his shoulder as he sat down, opened a single bottle of ale – Old Speckled Hen, usually – and commenced the evening's reading. Naturally, he understood the mortgage-backed securities and the credit default swaps. He grasped that the many would be sacrificed for the few. He knew that after the panic, the search for the past would begin, to discern the tale that could be traced from the wreckage of money. Plenty of people, some almost as clever as Nigel, had fathomed this much. But what Nigel started to realise as 2008 got going was that everyone would be digging for the past in the wrong place.

Nigel's father used to say that anyone who did wrong would get what was coming to them. His son thought that principle needed some enforcing. In a battered old notebook with '1970s-style laptop' on the cover, he recorded the suspicions he had formed as he shuffled daily to and from BSI's office in the City of London. He had, he wrote, stumbled upon the world's biggest fraud. And there was something else, something deeper – Nigel sensed it faintly, with a shiver – connected somehow to what was happening to money: far away, the screams of the tortured, the silence of the dead.

A Feast

Whitehall, February 2008

In February 2008, while it was just about still possible to pretend the crisis wasn't happening, a tall, lean billionaire with a thin face and receding hair made his way to the Banqueting House on Whitehall. Around the corner, in Downing Street, the chancellor of the exchequer was nationalising a failed bank, Northern Rock. Here, as across the West, the bailout of the financial system had begun, a transfer of public wealth to private pockets that ranked in scale alongside the one that had made this and many other billionaires' fortune the previous decade. Crisis was all around, but the chamber of rare beauty into which the oligarch now stepped was a place apart. It stood a half-hour walk along a bend in the Thames from the City, as it had since James I commanded from the architect Inigo Jones somewhere to indulge his love of masques, the lavish performances at which the royals could move among their subjects in disguise. James's heir, Charles I, commissioned Rubens to paint for the ceiling nine panels in homage to the divine right of kings to rule with absolute power. In January 1649 those images were among the last things Charles saw when, wearing two shirts so as not to shiver in the winter chill, he was led through the feasting hall to the scaffold erected outside the building, condemned as a traitor by Parliament. Now the cherubs and the lions, the swirling triumph of the Virtues over the Vices, of Wisdom over Ignorance, looked down on places set for seven courses and a Kazakh string quartet playing their counterpoints and harmonies.

The oligarch's name was Alexander Machkevitch. His many, many friends called him Sasha. For all his wealth, Sasha retained something of the academic he used to be, albeit one with a gaudily expensive wardrobe. Perhaps it was the spectacles, or the precise thatch of his moustache. When he spoke English, it was

with what an undiscerning Westerner would hear as the standard Thick Russian Accent. Sasha did hold Russian nationality, and had spent stints of the tumultuous nineties in Moscow, but he was in fact Kyrgyz. His mother had been a distinguished prosecutor back when Kyrgyzstan was a province on the Asian fringe of the Soviet empire. Young Sasha had been bright. He developed a mastery of language and secured a position at the university in Bishkek teaching philology. A life of obscure lecturing lay ahead of him. Then capitalism happened. Suddenly, there was a new thing to be: a businessman. Not just any businessman: Sasha wanted to be a superstar businessman. He would liken himself to the author trying to write a bestseller. He wanted money because he felt the power it would bring him.

It was three years since Sasha's name had first appeared on the Forbes list. Next to it, his 'net worth', as they called it: \$1 billion. He was, along with Bill Gross, Martha Stewart, Michael Milken, Wilbur Ross and sixty-six others, the joint 620th richest person in the world. That was a triumph, for sure. And now, a greater one: here he was among the money kings, in the flesh, welcoming luminary after luminary to the Banqueting House. Ivan Glasenberg was there. He ran Glencore, a commodities trading house based in Switzerland, and probably exerted more influence over the flow of the global economy's raw ingredients than any man living. Beny Steinmetz, a diamond baron from Israel, had shown up too. Sasha liked precious stones: he wore shoes encrusted with them.

But Sasha, like the monarchs in whose place he now sat, knew, as they had learned, that even apparently boundless power is never absolute. He and his two partners, both fellow Central Asian billionaires, were known collectively in the City as 'the Trio'. They drew their fortunes from the wondrous rocks beneath an expanse of steppe and mountain ten times the size of the United Kingdom. Kazakhstan was a land of nomads and horsemen (and, to its proud rulers' intense vexation, Borat). Neither Sasha Machkevitch nor his partners had been born there, yet they were said to control as much as 40 per cent of the economy. What a bounty it was that had passed from the Soviet state to those, like Sasha, with the skill to learn the language of capitalism in a few short years. There was uranium, more of it than anywhere on Earth except Australia, where the stocks had long ago been divvied up. To the west, under the Caspian Sea, there was oil, measureless caverns of it. As long as humanity wanted electricity, be it from splitting atoms or burning hydrocarbons, Kazakhstan would have buyers. Likewise for copper to make the wires to carry the charge to keep civilisation's lights on. The biggest buyer, these days, lay next door: China. Then there was the chromium, the iron, the bauxite, the zinc. China needed those too, as did

anyone who wished to make anything that flew or shone or lasted.

The blessings were abundant. Abundant, and one man's to bestow.

Nursultan Nazarbayev had been Soviet Kazakhstan's last Communist Party boss, and then, without interruption to his rule, independent Kazakhstan's first capitalist leader. Loyalty was all he demanded. That and a share of the booty commensurate with his position as father of the nation. Gaining and retaining Nazarbayev's favour was a delicate undertaking. His daughter's erstwhile husband, a chubby and peculiar former intelligence officer called Rakhat Aliyev but known as Sugar, had recently fled to Europe. One of the secret documents Sugar claimed to have swiped before he departed was a psychological portrait of the president prepared by the KNB, the Kazakh successor to the Soviet KGB. 'He has a tendency to classify people according to groups, "his" group and the "others". Those who agree with and accept his opinions and stick to the rules are in "his" group. Anyone who does not accept his opinion is one of the "others" and thus an enemy . . . If the enemy does not surrender, he must be destroyed.'

One of Sasha's partners had witnessed a display of Nazarbayev's psyche. Patokh Chodiev, blue-blooded Uzbek and product of the prestigious Moscow school of international relations attended by the children of the communist elite, had served as a Soviet diplomat before switching to business. He made Nazarbayev's acquaintance, growing so close to him that he was invited to accompany the first family on a holiday to the French Riviera in 1995. Their host was Behgjet Pacolli, a Kosovan businessman angling for Kazakh contracts. One day he arranged an outing to a restaurant near Monaco. When they arrived at Le Pirate, the party surveyed the establishment with mounting alarm. Wooden benches, beams thick with soot from the open fire, no crystal: this was not the manner in which a latter-day khan was accustomed to dining. Chodiev took a seat at the edge of the group, near the door. Waiters dressed as pirates laid out plates that reminded one guest of prison crockery. 'Where the hell have you brought us?' the president snarled at Pacolli. Pacolli paled. Nazarbayev seized a plate and smashed it to the ground. A dreadful silence. Nazarbayev grabbed another plate and flung it. 'This is not what I call a vacation, dammit!' he screamed. His wife, Sara, was close to tears. 'Nursultan, Nursultan, calm down,' she pleaded. 'If you don't like it here, we'll go somewhere else. Stop it, please, and calm down.' Nazarbayev would not be quieted. He hurled a wooden chair into the fire. By now the owner – in pirate captain outfit – was losing it. He too picked up a chair and slung it into the fire. Nazarbayev threw another, and the two of them continued to immolate the seating until, suddenly, their expressions changed. They started to laugh. Then Pacolli started to laugh. The three men laughed together. Delighted, they revealed to their bewildered audience that the

whole thing had been a lark. The restaurant's specialty was arranging such violent spectacles for the amusement of those in on the joke. All the khan's jokes were funny, so the rest of the party at once joined in by shattering the remaining crockery.

Chodiev, Sasha and the other oligarchs of Kazakhstan understood that the president giveth and the president taketh away. One of their number, Mukhtar Ablyazov, had had the temerity to demand democratic reforms. His businesses had been confiscated and he had been sent to a prison camp. Sugar had furnished Nazarbayev with three grandchildren, descendants with which to build a dynasty. Not even that could save him when he challenged the boss. A former minister who joined the opposition was found dead. According to the official account, he had committed suicide by shooting himself three times.

For an oligarch seeking safety there was one option so bold that you might have thought it would be difficult. First, turn yourself into a corporation: one of the most powerful fictions in which Westerners chose to believe, endowed with privileges and protections, and yet blissfully easy to create. Second, add to that corporation the assets Nazarbayev had allowed you to acquire – mines, banks, whatever. Then sell a share of your corporation for Western money. It was the successful completion of precisely this gambit that Sasha, his partners and their hundreds of terribly important guests now gathered at the Banqueting House to celebrate. Sasha and his fellow founders of the Eurasian Natural Resources Corporation had sold a chunk of their shares to the public, who could then trade them on the London Stock Exchange. For the Kyrgyz philologist, the Uzbek diplomat and Alijan Ibragimov, the canny Uighur trader who was the third member of the Trio, here was a dream made reality. Better still, the shares were trading so well that ENRC was on its way to inclusion in the FTSE 100 list of the most valuable British companies. The money managers of endowments and pension funds would now as a matter of course invest in this formidable corporation, yoking their fortunes to Sasha's.

Not that it had been cheap. Marrying into the City took a lot of ushers. Deutsche Bank, Credit Suisse, Rothschild, Morgan Stanley and ABN Amro: their bankers charged \$118 million. On top of that were the lawyers at Jones Day and Cleary Gottlieb. Another \$30 million to PwC, the auditors ('professional services firms', they called themselves these days). All the personages who agreed to sit on the board would cost hundreds of thousands too, year after year. You needed the names, though. 'City grandees', that was the shorthand in the business pages. They helped put everyone at their ease. There were two knights: Sir Paul Judge used to be director general of the Conservative Party, Sir Richard Sykes chairman of GlaxoSmithKline and rector of Imperial College. Ken Olisa

had been high up at IBM. Roderick Thomson was a ‘venture capitalist’, a particularly favoured epithet. Gerhard Ammann had served as chief executive of the Swiss arm of Deloitte, like PwC one of the Big Four audit firms that rotated between every FTSE 100 corporation and the government departments that stood beside the Banqueting House.

They had earned their money, though. The vital thing was for Sasha and his partners to shape the story that was told about them. ‘The past ambushes you in the present,’ went a saying Kazakhs liked to quote. There had been an awkward moment ahead of the listing when the London Stock Exchange’s regulators had found out about the Trio’s troubles in Belgium. Years before his fall, back when he still worshipped his father-in-law, the hapless schemer Sugar had been looking for a way to weaken the Trio’s position in Nazarbayev’s court and improve his own. He attempted to achieve this by claiming to the Belgian authorities that the Trio, among others of his enemies, were using bribes they had extracted from Western investors in Kazakhstan to buy splendid properties in the West, specifically Brussels. Investigators in Europe followed Sugar’s lead further than he had meant them to; they discovered Nazarbayev’s own secret bank accounts. The Belgians opened a case against the Trio on suspicion of laundering money: the offence of making the proceeds of crime look like everyday money. It dragged on for so long that it was still going as the proposed listing of ENRC in London approached. But if the Trio feared they might be deemed undesirable as a result, they had underestimated the City’s thirst for their money. A cordial agreement was reached. ENRC shares would begin to trade as planned but the Trio themselves would refrain from sitting on the corporation’s board, even though they would still own almost half the stock. And the authorities went further still to make them feel welcome. A Credit Suisse banker, James Leigh-Pemberton, persuaded the regulator to bend the rules and allow the Trio, the Kazakh state and another oligarch who between them owned ENRC to place just 18 per cent of the company’s shares on the market, sacrificing a minimal portion of control to attain the sanctity of a London listing.

Just in time, too. The perceptive in the City could see that their long run of ever more perfect freedom, beginning with Margaret Thatcher’s big bang and advancing, to their pleasant surprise, under Tony Blair’s New Labour, was facing a prolonged interruption when the masses worked out that they had been left with the bill for the incipient crisis. The new moneymen of the former Soviet Union shared with the libertarians of the City a loathing for the state. They had done splendid business together, the industrial triumphs of the proletariat laid out in lavish stock market prospectuses. At the exchange there were handsome bonuses for bringing in listings. One executive there concluded: ‘Why wouldn’t

ENRC or anyone else come to London? We invited them. They did not have to knock too hard.’ The London bankers’ and lawyers’ private pursuits matched those of the oligarchs and their retinues. ‘The finest of the finest prostitutes. Any drug you want. Different batches of girls. Limitless money. Limitless.’

No one could tell you the hour or the day when it happened, but that time had ended and another had begun. The crisis was the obvious reason: everybody was talking about it every minute, you couldn’t get away from it. And yet changes more profound were taking place far beneath, in the black aquifer of secret money. Here and there, those shifts rippled to the surface, causing disturbances whose meanings were hard to discern. When police in Moscow detained a corpulent sixty-one-year-old Ukrainian called Sergei Schneider in the evening of January 23, 2008 on suspicion of tax dodging, some thought it was a message, others an almighty blunder. A spokesman for the Russian Interior Ministry claimed that it was only after fifty-odd officers in balaclavas had arrested the portly fellow during a raid on his business partner that they realised Sergei Schneider was just one of his many aliases. The man they had in custody was Semyon Mogilevich, arguably the most powerful criminal operating in the globalised economy. All the mobsters could make money; you would have had to have been a lousy crook not to get rich in the lawless nineties. They could all counterfeit, extort, traffic. Mogilevich’s unique talent was to slink that money around the world incognito, transforming it as it went so that the stain of its origins disappeared. In the former Soviet Union, this was a skill prized above all others: the ability to turn the filthy lucre mined from the ruins of the collapsed empire into valid currency of the capitalist world, currency that could buy what they sold there: property, security, legitimacy. Mogilevich had studied economics, both at university in Ukraine and in practice in Moscow during the transition that began in the late 1980s. The Brainy Don, that was what they called him, banker to the underworld. Despite the Americans having charged him with forty counts of racketeering, fraud and money laundering allegedly committed in dozens of countries – and further accusing him of ordering murders – he had been living quite happily in Moscow before his arrest. Stories soon circulated that the police commander who picked him up had received a severe reprimand. Mogilevich’s detention had put Vladimir Putin’s regime in an awkward position. They could hardly just let him go: he was on the FBI’s most wanted list. And yet they had no desire to incarcerate the Brainy Don. For the sake of appearances, he had to be described in public as though he were an enemy of the state. In truth he was an ally of the kind of state Putin was constructing, a gangster state. All the same, maybe this had not been entirely an accident, or if it was, it was at least one that the new order could exploit. The

crisis into which the democracies were descending was an opportunity for the kleptocrats, those who ruled by theft. Perhaps Putin had chosen this moment to demonstrate to the lord of criminal money that the nineties, that bacchanal of looting, were over, that theft now had a greater purpose, a hierarchy to which even the Brainy Don would be obliged to submit. In that he was not alone. The unctuousness of the City of London's welcome for rich ex-Soviets was no longer being reciprocated.

The same month that the Trio threw their banquet on Whitehall February 2008 – an American and a Brit met late one evening at the Hyatt hotel near Marble Arch. The Brit, a cerebral beanpole called John Lough, had a job at TNK-BP, a fractious joint venture between the British oil company BP and some Russian oligarchs. It was fascinating work for a fluent Russian-speaker who had spent years studying the Soviet Union and what followed, first for a British military think-tank, then while running Nato's office in Moscow. BP's geologists mapped Russia's reserves of oil and gas: there were few larger, fewer still that Western companies were allowed to buy. Lough and his colleagues tried to navigate the politics. His superiors valued his work. Nonetheless, he was pretty sure he was about to get fired. The feeling deepened when the American arrived, looking agitated.

Normally, Shawn McCormick was a picture of confidence. In his early forties, he wore good suits and administered bone-crushing handshakes that Lough always took to be an assertion of authority. Unlike Lough, McCormick had not learned Russian. He was, however, proficient in what Lough called 'American corporate-speak', occasionally travelling from Moscow to the US to acquire the latest 'management bollocks'. The businessman vibe was a recent development. McCormick had started off at an intelligence think-tank in Washington, then served in Bill Clinton's National Security Council, where he held top-secret clearance. In 2003 he had joined TNK-BP to set up a government relations team. He knew Lough from BP projects they had both worked on in London, and recruited him over lunch to join the team. The one proviso was that, to keep staff numbers down, Lough would work as a consultant. That suited Lough fine: his children were in school in the UK. He could keep his family at home and nip over to Moscow for a week or two every month or so.

In his new job Lough met Bob Dudley, a career oilman from Mississippi who BP's bosses had sent to Moscow to run TNK-BP. Lough would prepare briefing books for Dudley and write speeches for him, capturing his cadences so well that Dudley found reading them was like speaking in his own voice. Lough got on better with Dudley than he did with McCormick, though he had nothing against McCormick, finding him intelligent and perfectly professional. Then, in

the summer of 2007, when Lough was on one of his trips to TNK-BP's expansive open-plan office in Moscow, McCormick drew him aside to a corner near the coffee machine where they would not be overheard. 'Just be aware,' he said, 'you are being watched by the FSB.'

Lough was not surprised that his work might attract the FSB's attention. It had retained much of the character of its Soviet antecedent, the KGB. Putin, a KGB veteran, had made the agency a central cog in his system of power. Less than a year had passed since Russian agents poisoned their former confrere Alexander Litvinenko in London. Anglo-Russian relations were awful. Lough knew he had been watched back when he was in Moscow for Nato. Now he was working for TNK-BP, he had been careful to keep his contact with the British embassy to a minimum. He stayed in touch with some old contacts – the Austrian defence attaché, for instance – with whom he could discuss Russian politics. But having any dealings with British intelligence could mess up his professional work, he realised, and in any case, they never approached him. All the same, Lough knew he was working on matters close to the heart of Putin's regime. TNK-BP held rights to some of the richest reserves of gas anywhere in the world but could only extract it with the blessing of Gazprom, the state company that Putin had appointed an old ally to run. Lough had been assigned to a team trying to figure out how decisions were made at Gazprom.

A few weeks after McCormick's warning, Lough was on his way back to London. He didn't like going to the airport by car – Moscow traffic could be as hard to predict as the Kremlin – so he took the train. It was usually a chance for a pleasant snooze before flying. This time, a fellow passenger sat down opposite him and struck up a conversation. The man was in his forties, burly, wearing a T-shirt and travelling with a long bag. Unusual, Lough thought. He was a gangly Englishman with the bearing of an Oxford don, so conspicuously foreign that Muscovite strangers never attempted to chat. The man asked Lough about his family, his job, his life in the UK. At one point, he asked: 'Are you afraid of flying?' When the train pulled in, the man picked up his long bag. It was obviously empty. The man hurried away into the terminal. Lough checked in and headed for security. As he approached, an official beckoned him over to a group of customs agents. They went through his documents and carry-on bag. One of them asked if he was transporting anything he shouldn't be. He said he was not. His checked bag appeared. They went through that too. They produced forms for him to sign, consenting to a search of his person, whereupon he was led to a room that was bare but for a bench and a sink. Lough braced himself, thinking he might be confronted with a wrap of some narcotic or other that had been planted in his luggage. The agents carefully inspected his clothes and looked

closely at his shoes. After a while, they told him he could be on his way. As he was gathering his belongings one of the agents chit-chatted with him. Then he said: ‘Last question, Mr Lough. Are you afraid of flying?’

Lough knew he had been warned. He took the message to be: you are in our sights, you should be careful about coming to Russia. He reported the incident to his bosses. A colleague with FSB contacts asked them what was up, and was told that while Lough might be under surveillance, nothing sinister should happen. It was the *should* that stayed with Lough. Nonetheless, he returned to Moscow for a few days in January 2008. When he left, he was once more pulled aside at customs and searched. This time he called Bob Dudley, the head of TNK-BP, as soon as he got through passport control. He wanted to communicate a message to the Russian intelligence officers who would doubtless be listening in to Dudley’s phone: ‘I deal with the CEO, so don’t screw around.’ Once he was out of Russia, he told McCormick: until we get to the bottom of this, it’s not safe for me to go back.

It was around then that something changed in McCormick’s manner. When they met up in Brussels soon afterwards, he seemed to Lough impatient, confrontational, nervous. He told Lough they would meet again soon. Two weeks later they took their seats at the Hyatt in London. Speaking in a disconcertingly friendly way, McCormick told Lough that, because the Brit could no longer go to Russia, he was being made redundant. He would receive three months’ pay, but McCormick wanted him to stop working instantly, abandoning all his commitments. Bob Dudley had sanctioned his dismissal, McCormick said, neglecting to mention that he had led Dudley to believe that Lough wanted to quit. Lough was staggered. As they parted, he offered his hand, an English reflex. But to his horror – he was, as he put it, ‘not a huggy kind of person’ – he found himself enveloped in McCormick’s embrace.

A month passed. Lough grew convinced that something strange was going on. And then, in Moscow, dozens of armed FSB officers stormed into TNK-BP’s offices a few blocks from Red Square, where they drilled open the safes. A few days earlier, the FSB had detained Ilya Zaslavskiy, an Oxford-educated Russian-American who had worked alongside Lough on the Gazprom research, along with his brother. They were accused of espionage. It was soon apparent to Zaslavskiy what was afoot: a scheme to cast him as a mole who was passing state secrets to his handler, the dastardly British spy John Lough. Such a narrative would advance the Russian oligarchs’ efforts to wrest more control over TNK-BP from their British partners. It would also help Putin’s regime strike back after the Brits accused his agents of committing murder on UK soil. From the safety of the Russian parliament, of which he was now a member,

Andrey Lugovoy, the prosperous former FSB officer who had left a trail of polonium around London before apparently slipping some into Alexander Litvinenko's tea, declared his support for the espionage investigation. It mattered not that the main document Zaslavskiy was accused of stealing – Gazprom's anodyne strategy blueprint – had in fact been formally sent to TNK-BP by the Russian authorities. No, this document was declared a secret of scarcely estimable value, the loss of which into Western hands, a pro-Kremlin newspaper reported, would have cost Russia billions of dollars.

Two weeks after Zaslavskiy's arrest, FSB officers interviewed Shawn McCormick. The venue, Lefortovo prison, had pulsed with terror since Stalin's purges. Dissidents and traitors to the motherland from Alexander Solzhenitsyn to Litvinenko had been incarcerated there. McCormick had told American diplomats in Moscow that he was relaxed about the FSB's request that he come for an interview, saying he had been assured he was seen not as a suspect in their espionage investigation but as a witness. A lesser man might have been more concerned: one prominent Russian newspaper had reported that, as well as Zaslavskiy, 'the FSB suspects Shawn McCormick, head of the international relations department of TNK-BP, who may be deported from Russia'. And the FSB had told the press that its team found business cards of CIA officers during the raid of TNK-BP's office. It did not reveal where they had been found. But the person in the office with a past in intelligence was not Lough or Zaslavskiy but McCormick. In his time at the White House, McCormick had enjoyed top-secret clearance to read the reports produced by America's spies. Now he sat before their Russian counterparts. Over seventeen hours he proceeded to give an account, the distortions in which, though subtle, played neatly into the FSB's narrative.

'I would like to note an unusual status of John Lough,' McCormick said. By this he meant Lough's position on a contract rather than on staff – a banal arrangement suddenly made to seem suspicious. McCormick made a point of mentioning that Lough had worked for Nato. Lough knew some wonks at the Foreign Office, not policymakers, but this became 'extensive ties to the UK government' in McCormick's account. At every turn, McCormick seemed determined to bend the facts to fit the FSB's script, especially when it came to Lough's relationship with the villain of the piece, the Russian-American Ilya Zaslavskiy.

On the occasions when Zaslavskiy and Lough had spoken to each other at work, they had used the polite form of Russian. They never socialised. Yet McCormick – who did not speak Russian – said the two conversed informally and had 'relations that were more than just business ones'. He told the

interrogators: ‘You can say they were friends.’ McCormick said Lough had requested that TNK-BP take on Zaslavskiy as a consultant. Lough couldn’t have done that even if he’d wanted to: he wasn’t senior enough. Lough and Zaslavskiy had worked together on the Gazprom research team, where both reported to a Scot in charge of the project. Again, McCormick’s version did not match reality: he told the FSB Zaslavskiy reported to Lough. He said Lough ‘supervised’ Zaslavskiy. His interrogators recorded this using the same Russian word one would use for a spy’s handler.

The FSB interrogators typed up a summary of McCormick’s evidence. McCormick signed it. They added it to their file, alongside similarly helpful testimony they had collected a day earlier from another witness. Sergei Novosyolov had served as a senior investigator on the organised crime beat at the Russian Ministry of Internal Affairs before becoming TNK-BP’s vice president for economic security. In his interview, he had claimed that McCormick had informed him that John Lough had been hired on the recommendation of Bob Dudley, a falsehood that could implicate the top BP man in Russia in the espionage narrative. Novosyolov accurately explained some insignificant aspects of Lough and Zaslavskiy’s work, but he also furnished the FSB’s investigators with several false details that could assist them as they conjured up a spy ring. Their case was taking shape like the best of the KGB’s ‘active measures’ from the Cold War: take a few threads of truth, stitch in the necessary fictions and weave it all together to form the lie you require.

Ilya Zaslavskiy and his brother faced between five and twenty years in prison. Because they held their nerve and refused to confess, the best that a kangaroo court could concoct was a conviction for a failed attempt at industrial espionage. They were given a suspended sentence of a year’s imprisonment and two years’ probation, with a life of self-imposed exile to follow. John Lough was banned from Russia. Bob Dudley started to feel ill. He took a blood test; some of those around him whispered it showed poison in his bloodstream. He recovered, the story went, once he started avoiding the food provided by TNK-BP. Upon hearing that the authorities were coming to arrest him, he fled the country. Hundreds of other BP staffers were forced to leave.

Shawn McCormick left BP not long afterwards. He had demonstrated a talent for assisting in the creation of an alternative reality that could be used as a weapon. It was a talent that would prove useful for his next employers – the Trio.

Maintaining your alternative reality was more valuable than any oilfield or seam of precious metal. And yet, now and then, in the privacy of, say, a royal palace of masques you had rented for the evening, you could indulge in a

moment's delicious contemplation of the original reality, the way things actually were. At the Banqueting House, Ivan Glasenberg of Glencore, the commodities king himself, rose to say a few words in his clipped Johannesburg accent. Those present owed thanks to his homeland, he said. The South African government was struggling with power cuts. That was making life even more miserable than usual for South Africans. It was also curtailing mining, which had pushed up the prices of the metals those mines contained. Glasenberg delivered the punchline: South Africa's troubles were good news for corporations that mined those metals elsewhere, such as ENRC, the share price of which had doubled. His audience hooted with laughter and banged their fists.

That night, as he sat at the top table, beneath images of the last god-kings, Sasha was beginning to comprehend the extent to which money could be turned into power. 'It's so exciting,' he had told a fellow businessman back in Kazakhstan shortly after ENRC's London listing. 'You just don't understand how provincial we are here. These are new horizons.'

Tunnels

Cheapside, February 2008

BSI's London office lay equidistant from the Bank of England and St Paul's, bang in the centre of the City of London, the aorta of the global financial system. The unremarkable building stood on Cheapside, the City thoroughfare laid down by the Romans, where medieval merchants sold sheep's feet and eels. The Stocks Market at its east end became known for the appalling stench of rotting fare. Around the corner was the Lord Mayor's residence, the Mansion House. There Tony Blair had leavened a speech about unjust global trade with a reaffirmation that the City 'creates much of the wealth on which this British nation depends'.

From the start, the Swiss financiers who created Banco della Svizzera Italiana, or Swiss-Italian Bank, saw their task as helping money cross national borders. Construction of what was then the world's longest tunnel, through the St Gotthard massif in the Alps, was under way. It would carry a railway to connect northern and southern Europe. When the work was completed, the Swiss president declared that 'the world market is open'. The Italian-speaking Swiss city of Lugano lay on the new railway's route. It was there that BSI's founders opened a bank in 1873, to capitalise on the new trade route. They did well, expanding in Switzerland and sending bankers abroad. The bank came through one world war. In the second, BSI's bankers did what many Swiss bankers did: they collaborated with the Nazis. At the same time, they did what they would start to do for their rich clients: they spun a story that reversed the truth. As Swiss bankers and their apologists told the tale, the reason that Switzerland made it a crime to violate bank secrecy was to help persecuted Jews protect their savings. In fact, the law was first drafted in 1932, the year before Hitler came to

power. The impetus came not from altruism but self-interest. It was the Great Depression. Governments badly needed to collect taxes. Those of Europe's rich who were disinclined to pay them found that by entrusting their assets to Swiss banks' anonymised accounts, they could dodge their dues. Parisian magistrates were demanding the Swiss cooperate in their investigation of tax evasion by wealthy French. At home, Swiss farmers and workers wanted the banks brought under control. The solution was to build a wall of secrecy around the banks – and then, when anyone asked about it over the years that followed, say it had all been down to the Jews.

Between the wars, foreign wealth managed by Swiss banks increased tenfold. After 1945, banks like BSI started opening offices in strange places, often corners of the crumbling British empire. The City of London had for centuries run the business side of a colonial project that extended from the slave ships of the Atlantic to the gold fields of the Cape and the East India Company's cargoes of teas, dyes and opiates. As British power waned, many of its smaller possessions remained bound to the City, only now in the service of other people's empires. Where once an island produced a particular crop, now it offered a particular flavour of financial secrecy: a type of trust, say, or a species of front company. BSI set up in the Bahamas and on Guernsey. Its bankers also needed to be near some actual rich people – high net worth individuals, as they were to be known – so they were stationed in New York, Hong Kong, Monte Carlo and of course London itself.

The Swiss bankers didn't do anything clever or original with the money. They just invested it in stocks and bonds like anyone else lucky enough to have a little to put aside. What mattered was that the money moved to a special place, a place beyond the reach of governments, of the law, of society. This place was known as 'offshore'. As the richest 1 per cent came to amass a quarter of all increases in incomes – leaving the bottom 50 per cent with less than a tenth – the amount of money stashed 'offshore' grew to \$7.6 trillion. That was, at least, the best guess, because a guess was all anyone was allowed to make. Put another way, of every hundred dollars the world's households held, eight were offshore. When economic crises came, a country's resilience was measured by its reserves, the store of cash, assets and gold upon which it could draw. The offshore bounty was double the single biggest reserves – China's – and more than half the global total. Swiss banks held a third of this bounty. By the time Nigel joined in 2006, BSI ranked in the top ten. It held \$48 billion of its clients' money. If it had been a country, it would have had the world's twenty-fifth biggest reserves.

BSI was not a bank like the high-street banks, for people with salaries and

mortgages. It was a private bank. In the London office, the chief private banker was Fabrizio Zanaboni. He was an expressive Italian whose father had worked for the bank. Half a dozen bankers reported to him. Between them they took care of about three-quarters of a billion dollars for a few hundred clients. The bankers were in theory constrained in the clients they could take on by Nigel's judgement of the probity of each. On one account, he had been required to decide whether a recently deceased Ukrainian businessman had or had not been poisoned. A background report on another client sketched out his connection to the St Petersburg mafia, but a banker had jotted on the margin: 'tenuous link, not relevant in my opinion'. Few clients, it appeared, were beyond the pale. Another of the bankers wanted to construct a financial labyrinth for a Romanian-born businessman called Frank Timis. After Ceaușescu had killed his father, the teenaged Timis fled to Australia, his BSI banker informed her superiors, where he was twice convicted of possessing heroin with intent to supply. These early missteps, the banker explained, should be excused. Timis merely 'fell in with the wrong crowd'. He had since moved to London and made millions from mining ventures in eastern Europe and Africa. These days, his banker reported, he had 'excellent connections'. Accusations that he had lied to investors about the potential of a Greek oil prospect were, likewise, nothing to worry about. As for what Timis wanted done with his money, the banker proposed setting up a foundation in Panama that he would control discreetly through a power of attorney. The Panama foundation would own two companies registered in the British Virgin Islands. The companies in the British Virgin Islands would open accounts with BSI in Monaco.

Nigel of Basingstoke tried to put himself inside a BSI client's mind. 'Why would I come to London to set up an account in Switzerland in the name of a Cayman Islands entity with directors in Panama? Now, it makes absolutely no sense unless there is something quite underhand going on.'

Nigel tried to keep an eye on one BSI banker in particular. Khofiz Shakhidi was a thirty-year-old Tajik with dark, lively eyes, an oval face and a lopsided smile. His father was an acclaimed composer from Soviet Tajikistan who described his works, which included a ballet called *Death of Usurer*, as 'attempts to create a synthesis between East and West'. His Western-educated son's accent bore only a slight trace of his origins. He could be charming and was clearly intelligent, but Nigel felt he went out of his way to wind him up. BSI's bosses in London had poached Shakhidi and two of the other private bankers from a rival, Crédit Agricole, two years before Nigel joined. They brought a couple of hundred rich clients with them. Many were from the former Soviet Union, so Zanaboni, the senior banker, decided to do some vetting. He hired Martin Flint,

who had spent twenty years at MI5. Flint now worked for Risk Analysis, one of the private intelligence agencies that were proliferating in Mayfair, the quarter of London that most knew only from their Monopoly boards, but where a few conduct the business of the rich. Flint was instructed to find out everything he could about Shakhidi's clients. He did his work and filed his report. The decision went up to BSI's bosses in Switzerland, who agreed that the London office could take them on.

Nigel was kept apart from the bankers, in his own office. He was signing off on their requests to open accounts for clients and shift their money around the world but he had little idea who the clients were or where their money was coming from. Outside, the crisis was getting worse. Northern Rock showed you how it was going to go: the enormous losses bankers had run up while enriching themselves would be borne by the public. But Nigel noticed something else that was happening in parallel. The banks seemed to be splitting open, their tricks revealed for all to see. And yet, quietly, more and more money was going to ground. In late February 2008, Nigel read in *The Times* that half of all commercial properties in the UK no longer belonged to named human beings. Instead they belonged to companies, registered in far-off places, the identities of their owners published nowhere. It was as though another tunnel had been dug, one that carried money away to a place of which no one spoke.

The Dual State

Moscow, February 2008

In the eleven years he had spent trying to write Russia's laws, Peter Sahlas reckoned he was granted admittance to the Kremlin more times than any other Westerner. Always pristine, hair immaculately trimmed, tie knot and top button joined as if magnetised, he seemed to gleam like his black chrome suitcases. He could have passed for one of the management consultants who pranced into post-Soviet Moscow billing by the hour to install capitalism. But he was not one of them. He had taken upon himself a higher task: to install the rule of law. In February 2008, he realised he had failed.

Peter was a liberal to his bones. His Greek father had been just young enough to avoid being rounded up with the men from his village during the civil war that followed liberation from the Nazis. He had emigrated to Canada, toiling in restaurants until he had his own and could afford to bring over his siblings and his bride. His swankiest establishment was on the ground floor of a tower of bank offices. His children, he decided, should be the ones eating the muffins, not the ones getting up at 5 a.m. to bake them. 'This is a free country,' he told them, 'and you can do what you want. But you've got to be a doctor or lawyer.' First, though, he worked them in his restaurants, so as to be sure they understood that money didn't grow on trees. At school in Toronto, Peter liked nothing more than making a stand for what were becoming his animating principles. He and his friend Vinay – a pair of 'shit-disturbers' as Peter put it – scandalised the Catholic school authorities by running on the front page of their student newspaper an interview with a doctor renowned for performing abortions. When the head summoned them, they delivered a jeremiad on free speech. In defence of this right they were prepared to take risks that older and more celebrated liberals