

Dmitriy A. Medvedev  
President of Russian Federation  
Kremlin, Moscow

Dear Mr. President,

A palace is being built on the Black Sea for the personal use of the Prime Minister of Russia. To date this palace costs over \$1 billion U.S., mainly through a combination of corruption, bribery and theft. This unpleasant tale of illegal payments, with threats, and with rampant corruption portends poorly for our beloved nation as we continue to struggle to improve the lives of all Russians and be a full partner in the global community of nations that ascribes to the rule of law.

The purpose of my open letter is to lay out the facts behind this travesty and tragedy, based upon my personal knowledge. I address you openly, rather than privately, because I have been inspired by your public speeches highlighting corruption as a main cause of crisis in our country. However, despite your speeches over time, and new laws enacted and campaigns initiated, governance in our country not only fails to improve; it actually grows worse, Mr. President. Instead of a jump forward toward public honesty, openness and transparency, the first decade of this century in Russia has seen an explosion of greed in the boundless appetites of corrupt officials.

The corruption is pervasive, and it is disgraceful and crippling for our great country. For example, in 2010, in our public procurement sector alone, one trillion rubles was reported stolen through government contracts (*see* Report of the Presidential Affairs Office's Office of Control, dated October 29, 2010). Transparency International measured annual corruption in Russia at \$250-\$300 billion U.S. (7.5-9 trillion rubles). What it means is that corrupt officials each year steal more than 50 thousand rubles from every Russian man, woman, and child. Measured another way, each year the direct cost of this corruption deprives the average family of four of 200,000 rubles that otherwise would increase wages, pensions, and grants, or services such as kindergartens, new roads or new homes and countless other "quality of life" benefits. The immeasurable indirect costs of this corruption sap the very fiber of our people and our country. The Russian people have demonstrated enormous patience. But that patience, Mr. President, is not unlimited, I believe that it is wearing our society thin.

The story of this palace began in 2000 when I, and countless millions of other Russians, enthusiastically welcomed a dynamic young president, willing and capable of making real change. We trusted that under his leadership, Russia would finally begin to enjoy law and order, a growing membership in the global community of nations, a healthy, efficient economy, strengthened democracy and the empowerment of the Russian people. We also anticipated an iron hand, effective in arresting the bureaucratic and anachronistic plunder of our country.

How wrong we were. Yes, the iron hand was there but instead it was used to convert business opportunities into a means to direct money to the personal benefit of government officials, including our current Prime Minister. Sadly, my story of how greed overcame promise is but one of many. Indeed in 2000, Petromed, a company of which I am a shareholder (jointly created in 1992 by three entities, one headed by Vladimir Vladimirovich Putin ("Putin")), had done a great deal for the health care systems of St. Petersburg and other regions of Russia. It is known as a company skilled at quickly performing quality work on large and complex projects.

Early in 2000 Mr. N. Shamalov, a Siemens AG representative for North-West Russia, brought to Petromed then President Putin's offer to supply funding for several major public healthcare contracts. We knew Shamalov to be Putin's close friend. With his participation, tens of millions of dollars worth of dental, X-ray, and other medical equipment were supplied to health clinics in St. Petersburg. Shamalov told us that Putin summoned Shamalov to his home to discuss a business opportunity stemming from his becoming President. As Shamalov later explained, Putin conditioned the funding of these contracts on a transfer by Petromed of 35% of contract amounts to accounts abroad. We were told that these contracts would be funded by oligarchs willing to make charitable donations to help the new President. In the meantime, money accrued in foreign accounts would be brought back and invested in the Russian economy under Putin's direct supervision. Stated another way, Russians would receive the newest medical equipment with investments that would also generate new hi-tech workplaces and we would be doing an interesting and challenging job -- all as a direct result of the "generosity" of certain oligarchs.

The first contribution came in 2001 from Roman Abramovich, who donated \$203 million U.S., through his "Polus Nadezdi" Fund, followed by Aleksey Mordashov's "Severstal" donation of \$14.9 million (U.S.). These funds were used to supply medical equipment worth hundreds of millions of dollars for health care institutions throughout Russia. As a result, more than \$148 million U.S. accrued in Shamalov-controlled accounts.

In late 2005, in order to implement Putin's instructions, Shamalov instructed that we form a company named OOO Rosinvest in Russia, which quickly grew into a very active investment company with projects in many industries, like shipbuilding ("Vyborg Shipyard," "Primorsk Shipyard"), construction ("Rosmodulstroy," "YK Modul"), lumber/timber processing (projects in Nizhniy Novgorod and Komy Republic) and others. I know this because I was responsible in the company for these industrial investment projects, which covered all projects except two. I along with other OOO Rosinvest employees worked very hard on these investment projects, which directly benefited the Russian economy.

Two other projects for which I was not responsible (but am intimately familiar with because of the financial drain they created for industrial projects I oversaw) were quite different. These two projects were managed personally by N. Shamalov. The first began in 2005 with the design of a small wellness complex on the Black Sea coast near the village Praskoveevka, with an initial budget of 400 million rubles (\$14 million U.S.). Construction commenced in late 2006. The Russian government had transferred 73.96 hectares of protected forest for building this wellness complex. Within months, in early 2007, the second project took off -- the creation of a vineyard to produce elite wine in the vicinity of Praskoveevka and Divnomorskoe. These projects were jointly referred to as "Project South."

Because of the world economic crisis in 2008, the projects I oversaw began to require additional financing to save several thousand jobs. Almost every company in Russia faced similar issues. Despite many attempts, my efforts to secure Putin's support for these investment projects were unsuccessful. In mid-2009 Mr. Shamalov conveyed to me Putin's decision to suspend almost all projects and to work solely on, and channel all available funds to, "Project South."

By this time, this "Project South," to which over ten billion rubles had been diverted -- out of funds desperately needed to protect so many jobs and industrial projects important to Russia -- had grown into an enormous, Italian palazzo-style palace with a casino, winter theatre, summer

amphitheatre, church, swimming pools, sport grounds, heliports, landscaped parks, tea houses, staff apartments, technological buildings – a modern day version of Peterhof, the tsar's palace near St. Petersburg. The total area commanded by this palace project has grown to tens of thousands of square meters. Based upon detailed reports and budgets which I have reviewed (the last time I had access to information about the cost of the project was in October 2009), the price tag for "Project South" had reached \$1 billion U.S.

Also, during 2009, ownership of all the facilities and land involved in the "Project South" was put into a private company, OOO Indokopas, whose sole owner through OOO Rirus, was N. Shamalov. In 1991-2008, Shamalov worked in Siemens AG and was fired when he refused to answer questions amidst an internal corporate investigation regarding alleged bribery. It strains credulity that Shamalov had even one percent of the resources to build this palace complex.

During 2005-2010, billions of rubles were caused to be diverted straight out of the state budget, to finance construction of a mountain road, a new high-voltage electric power line, and a special natural gas supply pipeline, all leading to the "N. Shamalov" private residence.

The palace's construction is being carried out by "Spetsstroy of Russia," Russia's largest state construction company, with architectural matters, interior design and material supply allocated to a few companies under the overall leadership of an Italian architect, Lanfranco Cirello.

By mid-2009, the outside and inside design work had been approved by Putin. This design required finishing materials and objects for interior decoration all to be supplied from abroad. The American company "Medea Inv. LLC," belonging to a Mr. L. Cirello, became the main supplier of materials. To conceal the value, amount, and nature of the supplied materials, Shamalov made a decision to import them without proper customs clearance, and pay for them with cash or from offshore accounts. When told about it, I strongly opposed this scheme to Mr. N. Shamalov, who served as the go between with Putin, because it blatantly violated Russian law. My opposition led to me being isolated from all projects. Within a month, I and all the employees of OOO Rosinvest were terminated. The OOO Rosinvest workforce was then restricted to people with 100% loyalty to Mr. N. Shamalov and willing blindly to follow his instructions without question.

News of this palace construction began to leak as early as 2006, and has since been a subject of ongoing speculation. Until now, however, no one has reported the details of this corrupt undertaking. All we know is whom this palace is being built for.

Two or three times a year, during 8 years, at Shamalov's direction, I prepared financial summaries for him to personally update President Putin on his investments. Immediately following each of these meetings, Shamalov would provide me with Putin's comments and instructions for the use of funds.

The debilitating corruption and greed plague millions of Russians and discourage Russian and foreign investors who could develop small and medium businesses (and even some very large ones), introduce new technologies and carry out innovative projects. So long as criminal behavior is condoned, every potential inventor, investor, or successful businessman today is a target for bureaucrats, state officials, or dishonest businessmen. The examples are many: Evroset, Hermitage, Yukos, and many others. So long as corruption rules in Russia, Mr. President, the unlimited talents and creativity of Russians, which have contributed immensely to the global

civilization on so many fronts, will not be even a fraction of what they could be. Talk of innovation, modernization, freedom of speech, and of a decent lifestyle for citizens will mean nothing until Russia begins to live in accordance with the law and the Russian leadership takes a strong hand in bringing the rule of law to bear against corruption.

Dear Dmitry Anatolyevich! Your efforts to make Russia a better place have convinced me that your intentions are sincere. The story I have told is a personal one but it can be easily verified through independent means. Moreover, distilled in this story, like in a drop of water, is the arrogant practice of ignoring the ordinary people and Russian laws alike, as well as the unfathomable scope of corruption in our country. That corrupt officials are building palaces for personal use while children are dying because there isn't money for medical treatment is nothing short of a national disgrace.

I am appealing to you publicly because not only Russians but the entire world is waiting for you to take clear and resolute action; action that would demonstrate that Russia has ceased to be a corruption haven. Corruption can only be eradicated if the effort commences at the top and goes all the way to the bottom. This has been proven by the experience of all nations whose anti-corruption campaigns have been successful.

I would like to end my letter with your words, Mr. President, because it is this kind of Russia that every honest Russian dreams about, "We will overcome backwardness and corruption because we are a strong and free people worthy of living a normal life in a modern, prosperous and democratic society."

It is within your powers, dear Mr. President, to show to our entire nation that everyone is equal before the law, even prime-ministers.

Sincerely,

Sergey Kolesnikov

*This is an English translation of a letter in Russian signed by Dr. Sergey Kolesnikov.*