

Revenue from cigarette sales goes to UAE offshores

How Belarusian oligarchs' illegal tobacco business works

On January 21 2021, Lithuanian border guards check a train carrying fertilizers from Belarus. It was indicated on the train cars that the products come from Belaruskali. The border guards already had information that the train can carry smuggled goods. The information was confirmed. Dozens of boxes were found in one of the train cars that contained almost 45 thousand packs of Fest cigarettes with Belarusian brands. The retail price of such cargo sold in Lithuania is almost €150,000.

Šarūnas Černiauskas, manager of investigative project Siena.lt, confirmed: “A huge flow of fertilizers produced in Belarus flows through Lithuania. Mainly they are products of Belaruskali and Grodno Azot. This flow is used for smuggling, and Lithuanian customs officials have also confirmed that the goods of these two companies often get caught with smuggled goods”.

According to Lithuanian customs officials, it is smuggling on freight trains that has become a trend in recent years. In 2020, the customs service confiscated more than 16.5 million packs of smuggled cigarettes worth about €50 million.

It is twice as much as in 2019, kind of a record. Another record was broken on a geographical scale – Belarusian cigarettes accounted for 93% of all cigarettes seized in Lithuania, says the manager of investigative project Siena.lt Šarūnas Černiauskas:

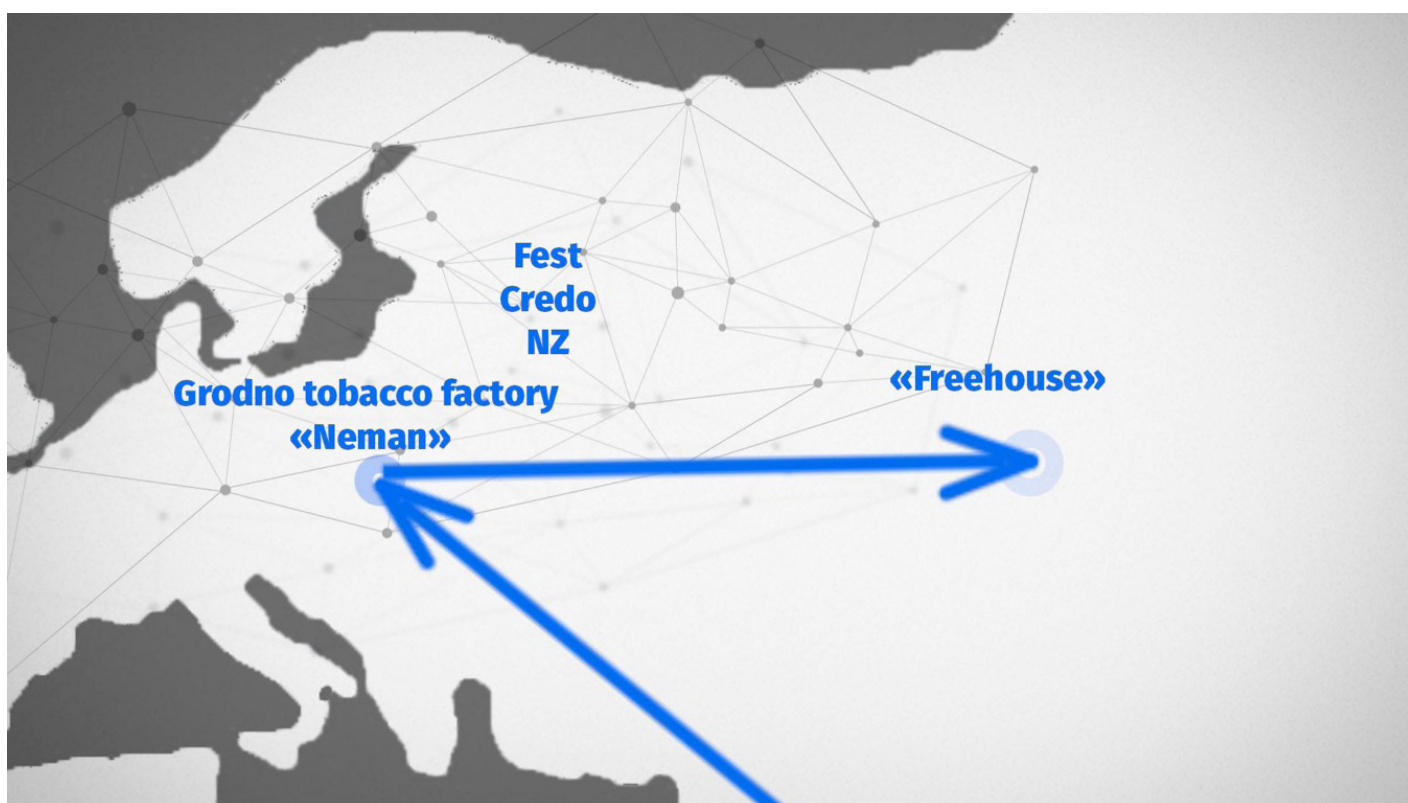
“The flow of smuggling from Belarus is just growing. It’s a trend. And what else can be seen from the public data we analyzed: the batch detained by the Lithuanian services makes up just a few percent of the real smuggling flow from Belarus”.

In many reports, Belarus is called the main supplier of smuggled cigarettes in the region. According to KPNG, in 2018, more than 4.3 billion cigarettes were delivered to Europe from Belarus, and more than 8.6 billion – to Russia. The retail value of these cigarettes is roughly \$1.5 billion.

Economic observer Alexander Zayats considers that:

“For Russia, this is a problem, and they publicly admit it. For the EU, this is also a problem, and they claim it. For Belarus, this is not a problem, because the country gets some kind of official income”.

Meanwhile, as our investigation shows, not all the money from the export of cigarettes remains in Belarus. According to the export-import database “Import Genius”, in July 2019, the Emirati company “Petrotrade” supplied the Russian company “Freehouse” with a whole truckload of Fest, Credo and NZ cigarettes produced at the tobacco factory “Neman”.

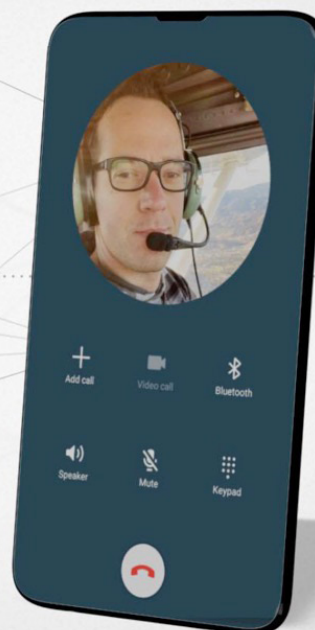


“We sell for those who travel from Russia to Ukraine. Once the border is closed, there is no confusion. And if there are no those who are travelling, then, consequently, we cannot sell. That’s why it makes no sense for us to buy further.”

«We sell for those who travel from Russia to Ukraine. Once the border is closed, there is no confusion. And if there are no those who are travelling, then, consequently, we cannot sell. That's why it makes no sense for us to buy further».

DMITRI ONYUSHEV

OWNER OF «FREEHOUSE»



As for the company “Petrotrade”, it is located in the free trade zone of Ras Al Khaimah, which is an hour’s drive from Dubai. In this zone, taxes and duties on re-exported goods are not paid.

Igor Tyshkevich, an analyst at the Ukrainian Institute for the Future, is sure:

“The United Arab Emirates turn a blind eye to the dubious history of such enterprises, to the dubious history of legalization of certain goods on their territory”.

“Petrotrade” is headed by Dmitri Oleksin, son of an influential Belarusian businessman Alexey Oleksin. Both of them, by the way, have properties in Dubai. As the details of the Emirati company, an account in the Belarusian MTBank is specified, controlled by the same Oleksin.

Company PETROTRADE FZE,

Registration number: RAKIA 52 FZ3 03 12 5346

Flexi Desk, Al Hamra Industrial Zone – FZ RAK, U

account: BY95MTBK30240000084000000544

ZAO “MTBank”

SWIFT: MTBKBY22

Bank address: Republic of Belarus, 220007,

Minsk, Tolstogo str., 10

E-mail: mgirzadas@gmail.com, tanyashl@mail.ru.

Tel. +37069811174

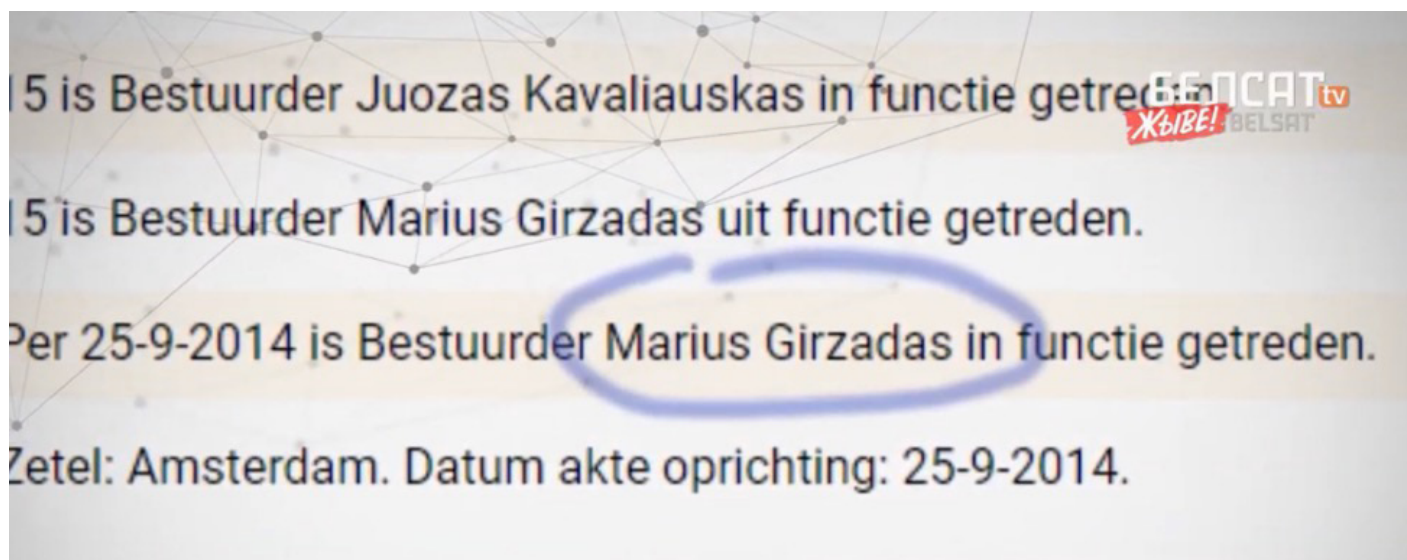
БЕЛСАТ tv
ЖЫВЕ! BELSAT

The organization's website is registered to Marius Girzadas.

| | |
|--------------------------|----------------------------------|
| Registrar Name | AESERVER |
| Status | ok |
| Registrant Contact ID | MGR57204924-JVVO |
| Registrant Contact Name | Marius Girzadas |
| Registrant Contact Email | mgirzadas@gmail.com |
| Tech Contact ID | MGR57204923-FFWS |
| Tech Contact Name | Marius Girzadas |
| Tech Contact Email | mgirzadas@gmail.com |
| Name Server | ns1.serveriai.lt |
| Name Server | ns2.serveriai.lt |
| Name Server | ns3.serveriai.lt |

He is the former head of the Dutch office of the Lithuanian company "Lewben", serving the offshores of the already mentioned Oleksin.

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| Drimble > Bedrijvenregister > Noord-Holland > Regio Amsterdam > Lewben Netherlands | |
| Lewben Netherlands | |
| Uitgebreide informatie over dit bedrijf met een vestiging in Amsterdam. Het adres is Herengracht 493 in Amsterdam. | |
| INFORMATIE ALLEEN OVER AMSTERDAM | |
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| Bedrijfsnaam: | Lewben Netherlands <i>Dit is mijn bedrijf!</i> |
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| Postcode: | 1017 BT |
| Plaats: | Amsterdam |
| Gemeente: | Gemeente Amsterdam |
| Regio: | Regio Amsterdam |
| Buurt: | Gouden Bocht |

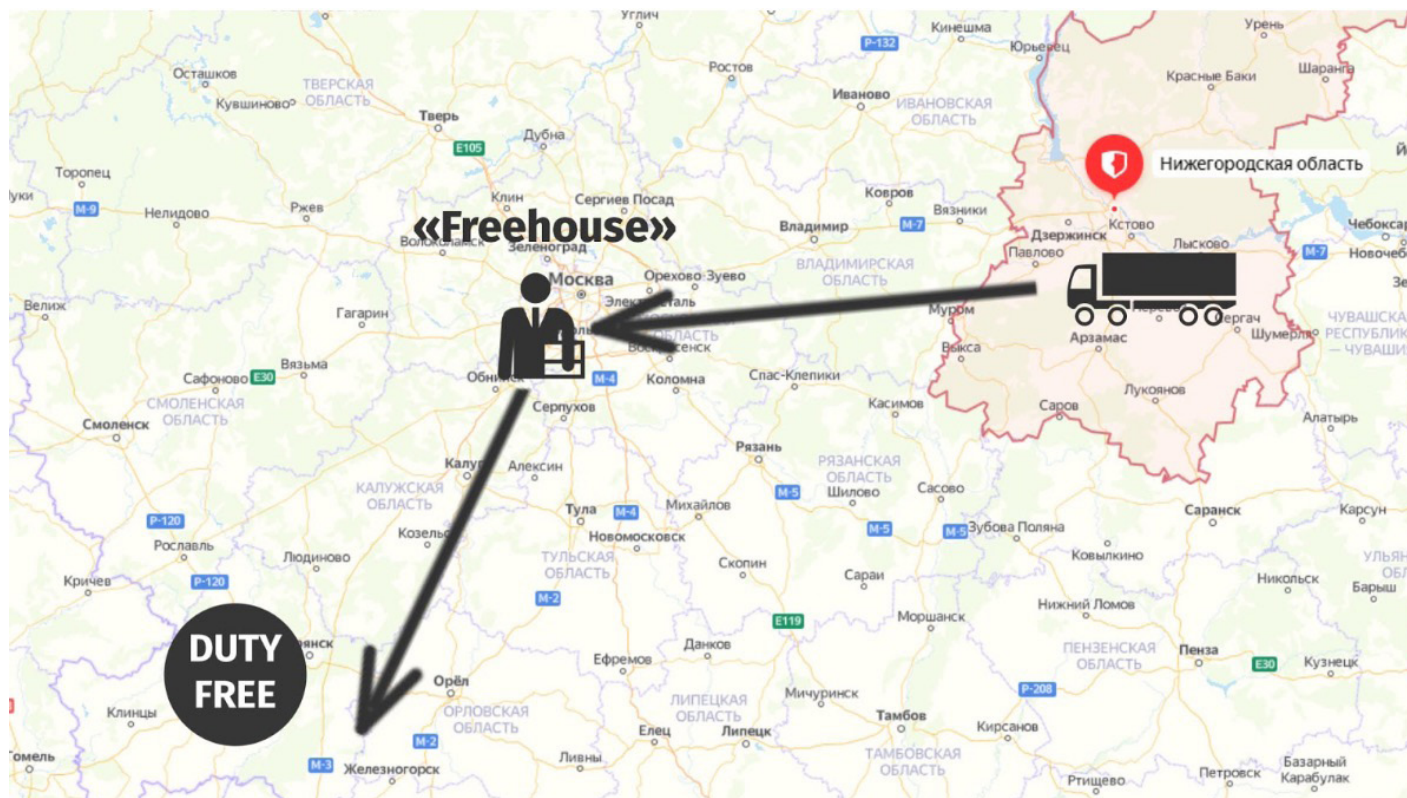


Šarūnas Černiauskas, manager of investigative project Siena.It, explains:

“Lithuanian company, elite financial company “Lewben” has been working with Alexey Oleksin since at least 2012. It was then that he opened his first Lithuanian business – the “Lexa-Ventures” company, and Mr. Girzadas together with Oleksin are co-owners of this company”.

Several years ago, Oleksin obtained a monopoly on the sale of the products of Grodno tobacco factory “Neman” through his Belarusian company “Energo-Oil”. But, as we see, he sells part of the goods through his offshore company. Moreover, in this whole story with the supply of cigarettes to Russia, we found two inconsistencies.

First, it is the place of delivery. According to the Federal Customs Service of Russia, in the specified month – July 2019, Russia did import cigarettes from the United Arab Emirates, but the cargo was delivered to Nizhni Novgorod region. Meanwhile, the “Freehouse” office is located in Moscow suburbs, not far from Domodedovo airport, and the duty free shop is in Bryansk region, on the border with Ukraine.



We asked the owner of “Freehouse” to provide us with evidence that the cigarettes he allegedly received for duty-free trade were not sold illegally in other regions of Russia. Initially, Dmitri Onyushev did not object to presenting us the documents on condition that he received evidence that he was really talking to journalists.

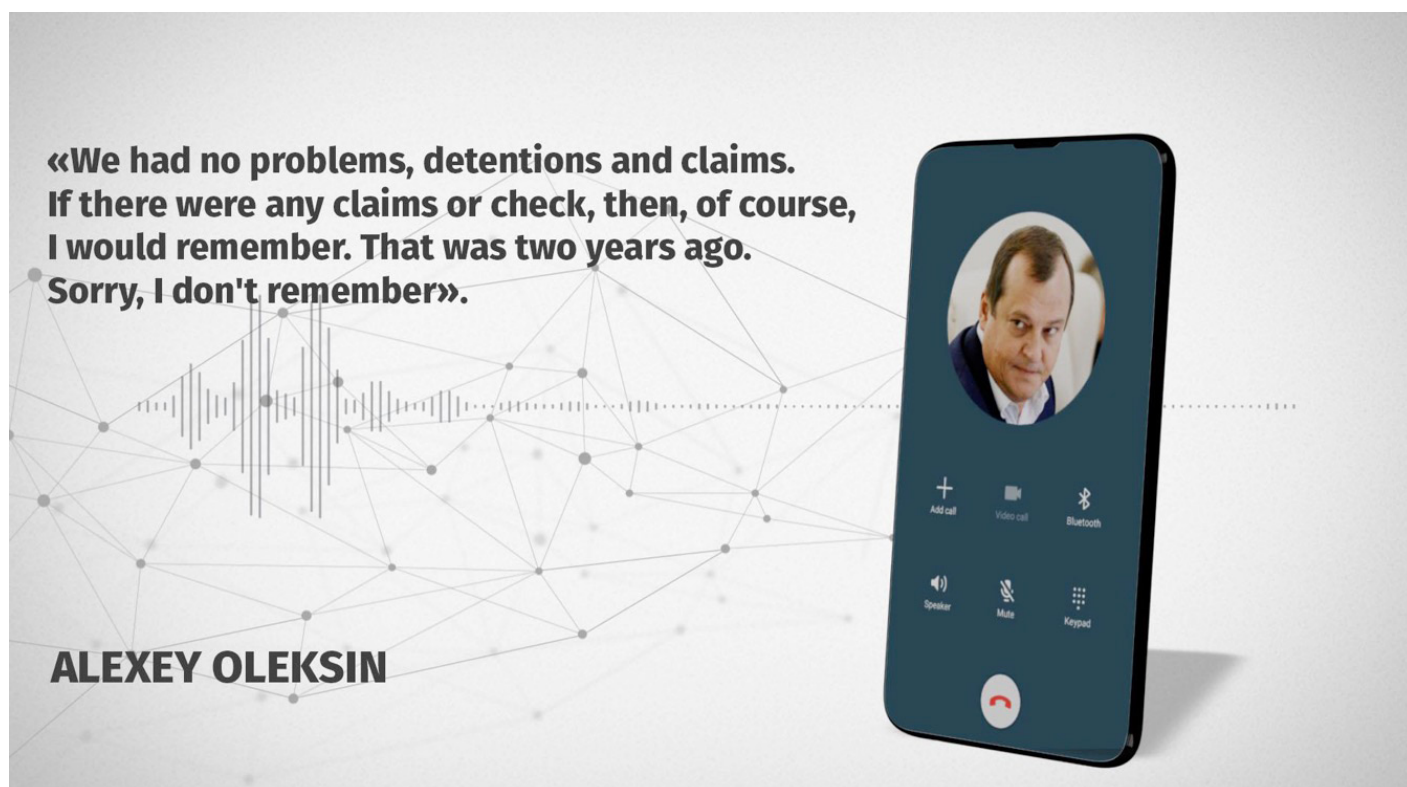
When we contacted Dmitri Onyushev again, the owner of “Freehouse” changed his mind about cooperating.

The second thing that caught our attention was that the Emirati “Petrotrade” for some reason supplied Belarusian cigarettes to the Russian “Freehouse” through Lithuania. The owner of the company Dmitri Onyushev explained this in the following way:

“According to the legislation of the Customs Union, the cargo must acquire the status of a foreign product. Therefore, it cannot be transported directly from Belarus to Russia, as it will be a product of the internal Customs Union. But in order to become foreign, it must be taken abroad and then taken back to the Customs Union from abroad”.

By the way, a truck with Grodno cigarettes was detained by Russian customs. Suspicions were caused by the fact that the inscription “DUTY FREE ONLY” was pasted only on blocks with cigarettes and could easily be removed. According to Russian standards, the inscription must be pasted on each package so that it could not be removed without damaging the package. Dmitri Onyushev sued the customs for a long time and, according to him, managed to return the cigarettes only a year later. But what Alexey Oleksin said was that he did not remember that delivery at all:

“We had no problems, detentions and claims. If there were any claims or check, then, of course, I would remember. That was two years ago. Sorry, I don’t remember”.



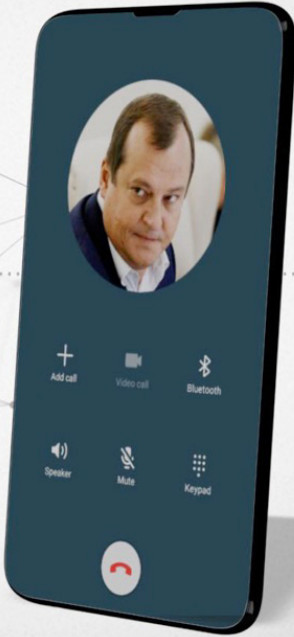
The entrepreneur explained the supply of cigarettes through the Emirati offshore by the nuances of the legislation. According to him, it is impossible to export through a Belarusian company, since excise tax must be paid in this case, which increases the cost of cigarettes.

Alexey Oleksin explained on the phone:

“Our excise taxpayers are both manufacturers and importers. Accordingly, if you sell something, the export excise tax is calculated based on the cost of production. If a Belarusian company buys any excisable products from a Belarusian company and subsequently exports them, the excise tax is applied to the cost price. That is, the cost of goods increases when being exported”.

- So do you optimize costs?
 - The word “optimization” is inappropriate here.
 - What is the right way then?
 - This is the export procedure adopted in accordance with the Tax Code. The word «optimization» is not here.

ALEXEY OLEKSIN



The Lithuanian customs do not exclude that such schemes can be used to smuggle cigarettes to the European Union. This is called broken transit, or carousel, Šarūnas Černiauskas, manager of investigative project Siena.lt, says:

“A carousel is mainly such a scheme in which cigarettes get to the territory of Lithuania in transit and must get to some other state. But they travel from one country to another, cross borders and at some moment just disappear. Finally, this cargo probably gets to the black market”.

Experts think that broken transit is also the most common way of delivering smuggled cigarettes from Belarus to Russia. The scheme works like this. Belarusian companies claim that they transport cigarettes to Kyrgyzstan, Kazakhstan, Armenia or another country, but the goods do not reach their final destination. A truck is unloaded somewhere near Moscow, for example.

Analyst of the group of companies “Finam” Alexey Korenev clarifies:

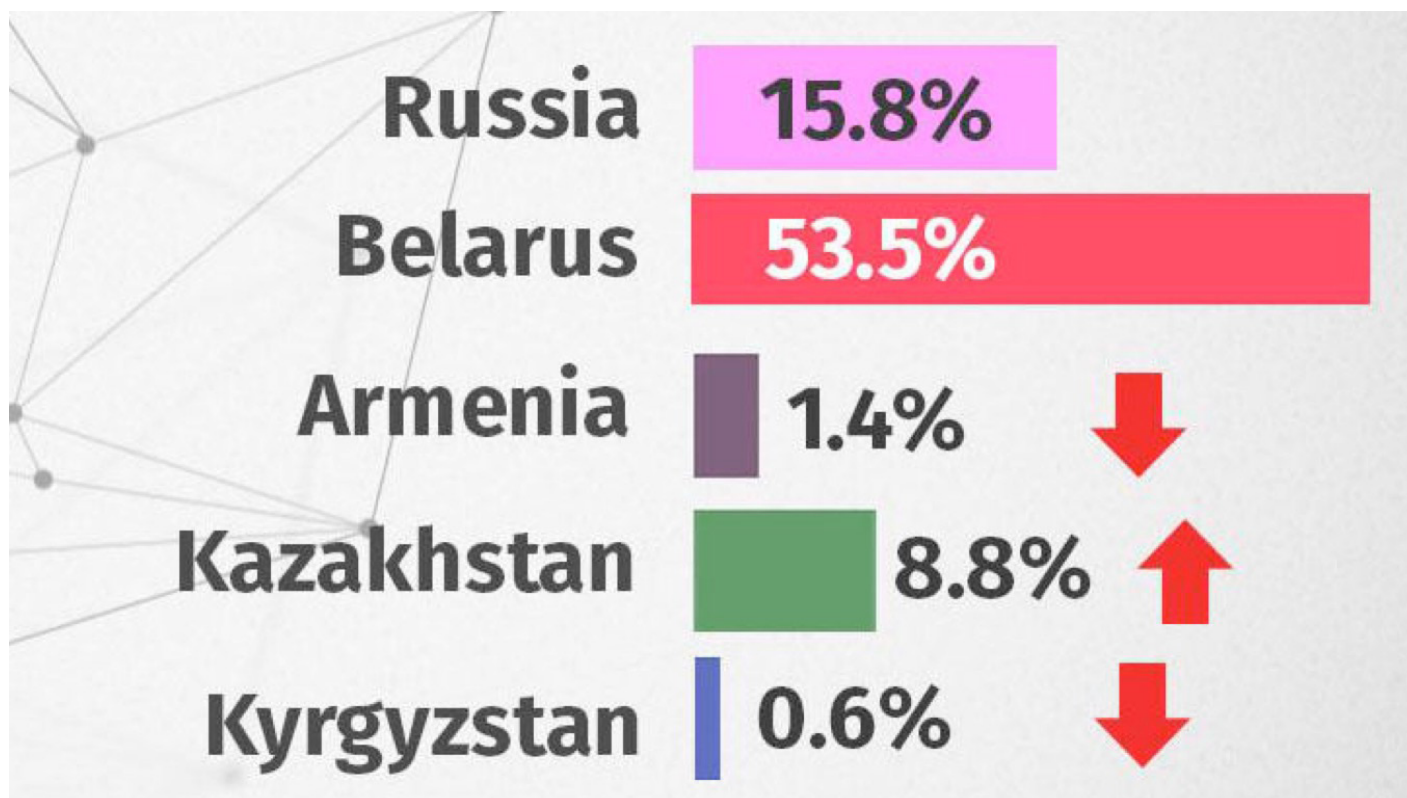
“In fact, the scheme is quite convenient, because in the conditions of our transparent borders it is really very difficult to track broken transit. That is, transit to another country through Russia is declared, the cargo is imported, and then somewhere here it dissolves through bogus companies. It will be impossible to find the ends”.

The latest data on Russia show that the share of cigarette smuggling from Belarus has increased by 1.5 times over the past year. According to the study of the “Nielsen” company, smuggled products from Belarus accounts for more than half of the black market.

According to the estimates of the analysts from «British American Tobacco», the annual revenue of all traders of illegal Belarusian cigarettes in Russia can be about \$300 million.

Experts say that the main condition for smuggling cigarettes from Belarus to the European Union and Russia is the difference in excise taxes and prices for cigarettes. For example, in Russia excise rates and cigarette prices are twice as high as in Belarus. Low prices in Belarus are intentionally kept by the state. In 2019, Lukashenko instructed to prevent an increase in tobacco prices in case of unification of tax legislation with Russia, referring to the interests of ordinary citizens so as not to hit their pockets.

Most frequently, cheap Belarusian cigarettes from the Grodno tobacco factory “Neman” – they are Fest, Minsk, NZ, Credo – end up in neighboring countries. According to the Lithuanian customs, the share of “Neman” in cigarette smuggling has grown significantly over the past year from 60% in 2019 to 94% in 2020.



In Ukraine, Grodno cigarettes are so popular that they began to be counterfeited, says Igor Tyshkevich, an analyst at the Ukrainian Institute for the Future:

“And it is safer than, for example, counterfeiting brands of multinational corporations. И это безопаснее, чем подделка, например, брендов транснациональных корпораций. Because in this case there must be some kind of lawsuits, but here it is necessary that the factory “Neman” itself applied to the Ukrainian courts and Ukrainian law enforcement agencies and asked to punish somebody for counterfeiting cigarettes Fest. In most cases this does not happen”.

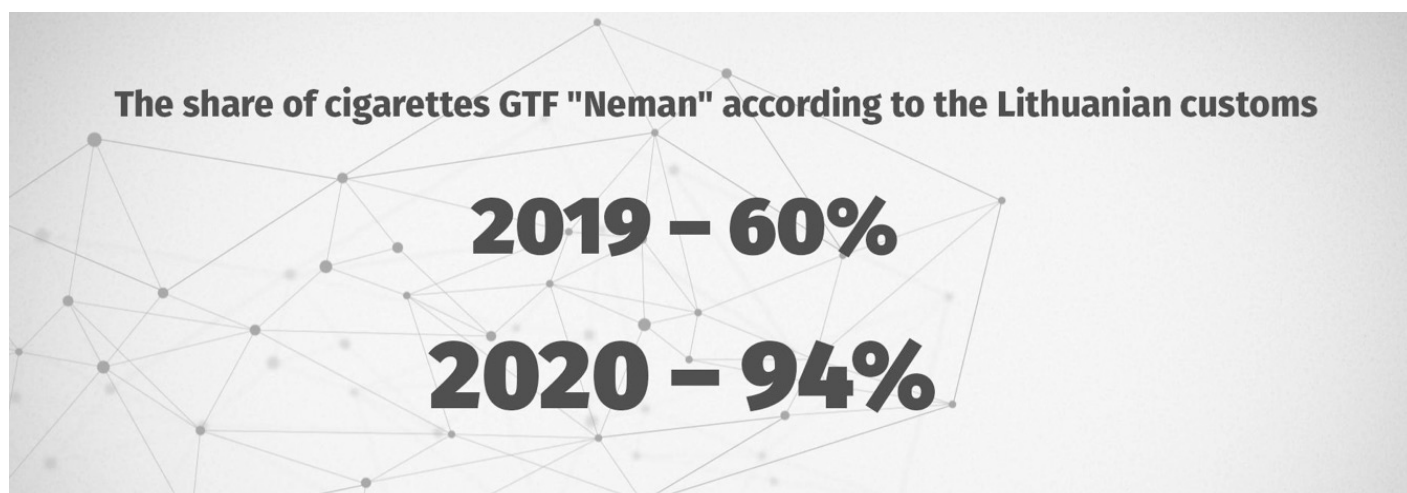
“Neman” is one of the oldest enterprises in Belarus, founded in the 19th century. For a long time, it

dominated the Belarusian market. In 2019, this factory was the fourth largest taxpayer in Belarus.

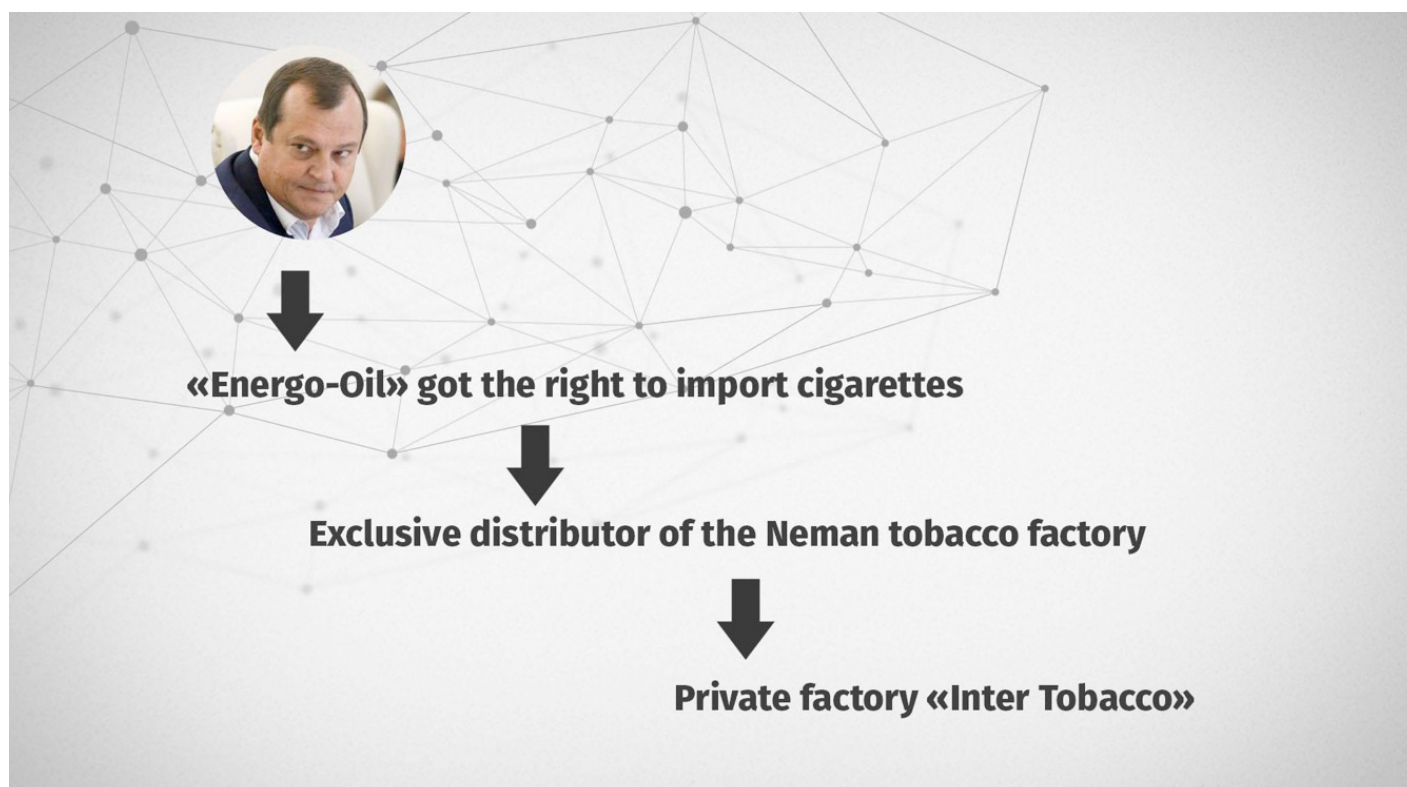
“The tobacco factory belongs to the state, so the influence of the Belarusian authorities on it really exists” – economic observer Alexander Zayats says.

In the late 1990s, cigarettes began to be produced at the private Minsk factory “Tabak-Invest” owned by businessmen Victor Petrovich and Pavel Topuzidis. At the end of 2017 the situation changed dramatically. At that time Lukashenko held a meeting on the tobacco industry. Some businessmen voiced a proposal to improve the production and sale of cigarettes as the potential of the industry was far from being exhausted.

Alexey Oleksin, a businessman close to the authorities, was entrusted to establish the work of the tobacco industry. Initially the “Energo-Oil” company controlled by him got the right to import cigarettes. Previously, only the state-owned enterprise “Belarustorg”, which is a part of President Property Management Directorate, was engaged in this.



Then Oleksin became the exclusive distributor of cigarettes of the tobacco factory “Neman” both domestically and for export. Finally, the businessman launched his own tobacco factory “Inter Tobacco” near Minsk, for which Lukashenka himself even changed the boundaries of the city by his decree.



The new plant was launched just after the Belarusian cigarette smuggling became the number one problem in the tobacco markets of the neighboring countries.

“If we say that Oleksin is connected with or close to the current authorities, we can probably say that this helps him conduct his business” – economic observer Alexander Zayats argues.

With the launch of a new factory near Minsk, the production of cigarettes in Belarus has even more exceeded domestic consumption by two or even three times. It is not known how many cigarettes are exported from Belarus. The authorities have been keeping the statistics in secret since 2016. According to the UN database on international trade, from 2016 to 2020, cigarettes worth almost \$42 million were exported from Belarus. At the same time, only Lithuanian customs officers and border guards detained smuggled cigarettes from Belarus worth of about the same money during the same period. And this is despite the fact that officially Lithuania did not import cigarettes from Belarus at all for the last 5 years, according to Eurostat data.

| REPORTER/PERIOD | Jan.-Dec. 2015 | Jan.-Dec. 2016 | Jan.-Dec. 2017 | Jan.-Dec. 2018 | Jan.-Dec. 2019 | Jan.-Dec. 2020 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| European Union - 27 countries (AT, BE, BG, CY, CZ, D | 19869 | 10855 | 9110 | 10715 | 12308 | 22076 |
| European Union - 28 countries (AT, BE, BG, CY, CZ, D | 19869 | 10855 | 9110 | 10715 | 12308 | |
| Germany (incl. German Democratic Republic 'DD' F | 19869 | 10855 | 9110 | 10715 | 12308 | 12073 |
| Hungary | | | | | | 8 |
| Latvia | | | | | | 9965 |
| Netherlands | | | 0 | | | |
| Poland | | | | | | 30 |

Šarūnas Černiauskas, manager of investigative project Siena.lt, informed:

“At the end of 2017, Alexander Lukashenko said that it was necessary to increase production volumes due to the high demand abroad. It was he who mentioned some niches in the European Union. But we got official data from Eurostat, which show that the import of Belarusian cigarettes throughout the European Union is practically zero. No growth, no niches”.

Belarusian officials recognize the so-called folk smuggling, when people transport cigarettes across the border by train or by car. But they deny any involvement of the authorities or businessmen close to them in the smuggling. Our joint investigation with the Center for Investigation of Corruption and Organized Crime suggests otherwise.

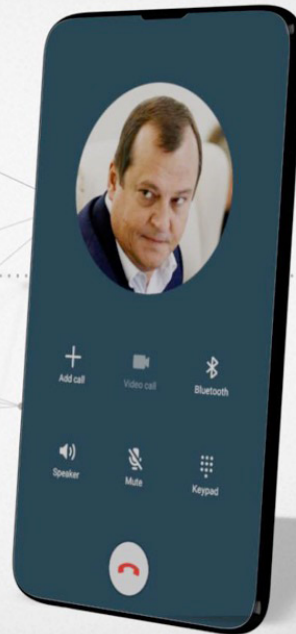
“Most of these products from Belarusian factories, including “Neman”, are smuggled. But, in order for the smugglers to deliver their goods, in most cases they must go through Mr. Oleksin’s company. I have no idea whether directly or not, but we can say that Mr. Oleksin benefits from smuggling” – Šarūnas Černiauskas, manager of investigative project Siena.lt, claims.

Alexey Oleksin claimed the information spread on the Internet about his involvement in cigarette smuggling to be rumors:

“Blame requires facts, not rumors. In this case, there are just rumors. And someone heats them up, someone rocks them. We need to find out who benefits from it”. “Who do you think can benefit from this?” “Rivals, ill-wishers”

- **Blame requires facts, not rumors. In this case, there are just rumors. And someone heats them up, someone rocks them. We need to find out who benefits from it.**
- **Who do you think can benefit from this?**
- **Rivals, ill-wishers.**

ALEXEY OLEKSIN



Excise taxes on tobacco bring about 1 billion rubles to the Belarusian budget annually. Meanwhile, according to the World Health Organization, the annual expenses of Belarus for the treatment of non-communicable diseases, including those associated with the use of drugs, alcohol and tobacco, account for 5% of Belarus' GDP. According to WHO estimates for 2018, this is about 5 billion rubles, says Valentin Rusovich, coordinator of public health programs of the WHO office in Belarus:

“Most of these 4 billion 600 million Belarusian rubles that are lost stand for premature mortality: a person dies at the age of 60 instead of 70. This is incapacity for work, this is insufficient productivity, and this is disability. All this leads to very large losses due to the severity of non-communicable diseases”.

It turns out that low excise taxes, which make smuggling cigarettes to the neighboring countries profitable, add hundreds of millions of dollars to the state treasury, but cost billions to the country. Meanwhile, profits from shady schemes of exporting cigarettes from which excise taxes are not paid go, at least partially, to the offshore accounts of businessmen close to the authorities, economic observer Alexander Zayats says:

“The fact that the budget may receive less taxes due to such schemes ... Probably, there is some truth in these statements. Apparently, the budget of Belarus could receive more legal income”.

According to experts, high and regular fines for the transportation and sale of illegal products, the mandatory destruction of confiscated illegal products, as well as measures to combat corruption will help to stop the spread of smuggling, as analyst of the group of companies “Finam” Alexey Korenev is confident in:

“Once tobacco products are exported across the border in huge quantities in containers, under the guise of metal panels or lumber, that means that this is already an established channel. Thus, if there is an established channel, then there is corruption. Accordingly, it is necessary to fight against corrupt officials, who the construction of such supply channels generally depends on”.

Experts unanimously call the increase of excise taxes on cigarettes in Belarus the principal measure in the fight against smuggling. According to rough estimates of the World Health Organization, such a step will bring the budget more than 1 billion rubles, and the losses will amount to only hundreds of thousands, says Valentin Rusovich, the coordinator of public health programs of the WHO office in Belarus:

“To give a very rough calculation, in 2019 the state received 1.2 billion Belarusian rubles from cigarette taxes. If we doubled the cost of excise taxes, then, basically, taxes would increase to 2.4 billion. Of course, if we say that 30% of the population will quit smoking, then if we remove it, it will be that part of people who would not start smoking, who would ask for help to quit smoking, direct losses from low excise taxes from the state would amount to 400 million rubles”.

But will the Belarusian authorities agree to raise excise taxes? Such a decision will lead to skyrocketing prices of cigarettes and, as we see it, may cause outrage among already politically excited Belarusians. Lukashenka hardly needs that.