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S E C R E T SECTION 01 OF 02 BUCHAREST 001694

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E.O. 12958: DECL: 11/03/2016
TAGS: ENRG, ECON, PREL, RO

SUBJECT: RAFO REFINERY - A TROJAN HORSE FOR RUSSIAN MAFIA
REF: A. BUCHAREST 1691
B. BUCHAREST 1644

Classified By: Acting Deputy Chief of Mission Jennifer Bonner for reasons 1.5 (b) and (d).

1. (C) SUMMARY: The RAFO oil refinery is embroiled in a web of corruption, money laundering, fraud and criminal charges involving shady entities in Romania, Russia, Ukraine and Bulgaria. Russian-Israeli organized crime figures Mikhail Cernoy and Iakov Goldovskiy are believed to be behind the purchase attempt by the Dutch-registered company Calder-A. In an attempt to counter the transaction, the Romanian state has inserted itself through the vehicle of the refinery's historical tax arrears. The GOR is the subject of a heavy lobby effort, including from the Austrian government, to approve the Russian takeover of RAFO. END SUMMARY.

RAFO PRIVATIZATION PROBLEMATIC FROM THE GET GO

2. (C) The RAFO refinery, one of Romania's five principal petroleum refineries, is based in the Northeast Romania town of Onesti. Its 2001 privatization is regarded as one of the biggest failures in Romania's post-communist privatization history. To date, RAFO has posted net losses of \$448 million and owes \$500 million in tax arrears to the state and private companies. (N.B. OMV/Petrom has sold its \$44 million in receivables to Calder-A, giving it a seat at the creditors table.) In October 2001, the then PSD government privatized RAFO in a notorious deal with a consortium including controversial Romanian businessman Corneliu Iacobov and a Portugal-based company named Canyon Sericos. Iacobov, who is currently under investigation for organized crime, tax evasion, embezzlement and money laundering, has been connected to past fraudulent schemes involving bond sales and investment funds. His takeover of RAFO was assisted by his close relationship with senior PSD leaders, including former President Ion Iliescu.

3. (SBU) In 2004, Iacobov transferred partial ownership of RAFO to VGB Oil, Faber Invest, and Tender SA, the latter owned by businessman Ovidiu Tender, who is currently in custody pending trial on charges of international money laundering. Iacobov himself later divested additional equity in the refinery after stripping it of assets and leaving it heavily in debt, transferring half of RAFO's shares to Balkan Petroleum Ltd., a shell company in London. Although registered in the United Kingdom, Balkan Petroleum's true ownership and actual location remain opaque. On paper, Balkan Petroleum's ownership includes VGB Invest (reportedly controlled by corrupt Romanian businessman, Marian Iancu), Central Europe Petroleum and Acornline, an offshore company in the Channel Islands.

4. (SBU) In April 2004, the insolvent refinery was put under judicial reorganization by court decision. At the time, the Finance Ministry submitted a demand for bankruptcy, but a local court decided in favor of Balkan Petroleum's request, enabling RAFO owners to buy time and continue to lobby for state aid and debt forgiveness.

5. (SBU) On November 16, 2004, the Romanian Parliament approved an emergency ordinance mandating AVAS, the principal enforcer of privatization contracts, to do a debt-for-equity swap for RAFO's arrears. The law further extended state protection from accrued arrears until October 31, 2004, writing off penalties and interest. After the swap, the state was to become a majority shareholder in RAFO. The change of governing parties after the 2004 elections resulted in dropping the rescue package.

RUSSIANS ENTER THE PICTURE

6. (C) In 2005, Calder-A entered into an agreement with Balkan Petroleum to take over RAFO and all of its assets and liabilities. However, as part of the original privatization contract, an ownership transfer had to be approved by AVAS. AVAS and the Ministry of Finance objected to the transfer due to Calder-A's failure to provide requested documents on its ownership structure and creditworthiness. While AVAS has maintained that, in the absence of its approval, Balkan Petroleum remains the main shareholder in RAFO, company managers say that Calder-A is the de facto owner already.

MOB CAPITAL WITH AN AUSTRIAN FACE

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7. (C) Calder-A is 100% owned by Austrian-based Vienna Capital Partners, which in turn is owned directly or indirectly by foundations and NGOs, some of which claim to be non-profit. Calder-A is managed by Bulgarian businessman Todor Batkov, whose connections with organized crime are well known in Sofia. Current RAFO manager Marin Anton has stated that Russian businessmen and organized crime figures Mikhail Cernoy and Iakov Goldovski are behind Austrian-based Petrochemical Holding, which controls Calder-A. Cernoy and Goldovski have allegedly pressured RAFO's suppliers to limit its access to oil during the dispute to apply pressure on the domestic oil market.

NEW AVAS HEAD HAS AMBIGUOUS AGENDA

8. (C) Following the dismissal of Razvan Orasanu from the helm of AVAS, newly-appointed head and recently dismissed Defense Minister Teodor Atanasiu announced that his main priorities for the remaining months of 2006 include solving RAFO ownership. He has not further elaborated his intentions.

PRIME MINISTER: HELP ME DO THE RIGHT THING

9. (S) In a November 2 meeting with the Ambassador, Prime Minister Tariceanu indicated that he is keenly aware of the nefarious elements circling RAFO. The operation "looks like a (money) laundering machine," he said. However, the GOR is under pressure from numerous fronts to ensure continued operations and protect the jobs of RAFO's 3000 employees. According to Tariceanu's principal economic advisor, Atanasiu "knows what he is supposed to do" in holding off criminal interest. However, the PM asked the Ambassador for U.S. assistance in thwarting

the sale, particularly any information we may have on Cernoy and Goldovskiy's criminal activities.

MAKE OR BREAK DEADLINE?

10. (C) The GOR has until the end of the year to agree to a reorganization plan for RAFO's creditors, including AVAS and the Ministry of Finance. One option is, of course, bankruptcy proceedings. Meanwhile, RAFO labor unions, company representatives and politicians are lobbying on behalf of the Russians. Recently-resigned Presidential Advisor and former Prime Minister Teodor Stolojan, a Tariceanu rival, has also weighed in on behalf of Calder-A, a fact Tariceanu's people were sure to point out.

COMMENT

11. (S) RAFO's convoluted story of corruption, fraud and non-transparent deals continues. The court and creditors have yet to reach a decision on the refinery's fate. Meanwhile, labor union pressure, press campaigns and even high-level lobbying from Austrian Vice-Chancellor Hubert Gorbach seem to be pushing the GOR toward the Russians. Former AVAS head Oresanu had spearheaded an aggressive approach against Calder-A's takeover attempt. Atanasiu and the PM may be keen to use RAFO as a tool in their simmering conflict with President Basescu. Atanasiu's own position as Minister of Defense was a recent casualty of this clash when President Basescu suspended him from office amid accusations of abuse of position and corruption (see reftel).

12. (S) By making public our unease with RAFO's potential owners, the USG would be providing Tariceanu with the necessary cover to do the right thing. However, President Basescu's apparent lack of interest in the RAFO case is worrying from a man who has positioned himself as champion of anti-corruption. One consideration against Embassy involvement is the likelihood that RAFO would be used as yet another bludgeon in the ongoing political rivalry between the President and PM. Pointing fingers at Mr. Stolojan by the Prime Minister's aides indicates this is a strong possibility.

S E C R E T SECTION 01 OF 04 BUCHAREST 001747

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DEPT EUR/NCE AARON JENSEN, DAVID KOSTELANCIK, AND JUDITH

GARBER

E.O. 12958: DECL: 11/16/2016

TAGS: PREL, PGOV, KCOR, PTER, PINR, KJUS, SOCI, RO

SUBJECT: FBI DIRECTOR MUELLER'S VISIT TO ROMANIA

REF: A. BUCHAREST 1600

B. BUCHAREST 1694

Classified By: Ambassador Nicholas F. Taubman for Reasons 1.4(b) and (d
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1. (C) Summary: FBI Director Robert Mueller's November 14 visit to Bucharest sent a strong message about our continued commitment to our growing partnership in law enforcement and intelligence. In meetings with President Basescu, Prime Minister Tariceanu, and other key officials, our Romanian

interlocutors called for further bilateral cooperation to develop the skills, legislation, and capabilities to

effectively fight corruption, cyber crime, organized crime, trafficking in persons, and terrorism. This emphasis was both a reflection of how valuable law enforcement cooperation and assistance have been to date, as well as a signal that senior officials like Basescu believe that important challenges remain in fighting corruption, trafficking in persons, money laundering, and terrorism as Romania emerges as a key state on the common NATO and the EU border. Mueller

heard throughout his visit concerns about the growing influence of Russian organized crime in Romania and in the region as a whole, and the important role played by the SECI Center. Mueller's private and public statements on the need to fight corruption delivered a strong message that the U.S. stands beside Romania and expects it to continue such efforts at a time when the political will may be waning. End Summary.

2. (S) FBI Director Robert Mueller visited Bucharest on November 14, meeting with the President, Prime Minister, Justice and Interior Ministers, Prosecutor General, and the directors of the internal and external intelligence agencies. In a thirty minute meeting with President Basescu, Mueller

expressed his gratitude for Romania's outstanding cooperation in the law enforcement field and his readiness to deepen the relationship further. Basescu commented that he, too, felt the relationship could be expanded, and stressed that he would like to see the FBI's presence in Romania to be as

robust as that of the CIA. Mueller spoke of the importance of working on a bilateral basis, which was the best setting for developing relationships and law enforcement cooperation. Basescu assured the Director that there was less corruption today in the Romanian police force and that the U.S. side

could trust its Romanian counterparts. Mueller commented that to the extent Romania was seen by the U.S. and its other allies as tackling corruption, putting corrupt officials behind bars, its image would improve. Basescu made a strong pitch for continued law enforcement training and support in order to upgrade its capabilities as it faced threats from

the east -- for instance, helping prosecutors and judges fight money laundering. "Your experience is exceptionally good," the Romanian president commented, "and we want you to transfer as much as possible."

3. (S) Mueller also met with Prime Minister Calin Popescu Tariceanu, highlighting Romania's growing visibility as a source for cyber crime. Tariceanu's surprise was evident when the Director reported that, for instance, ninety percent of cybercrime on e-bay originated in Romania, and that Pay Pal will no longer do business with Romania. (In a subsequent conversation with us, the PM's chief of staff Mihnea Constantinescu confirmed that the Prime Minister was taken aback by this information, and wants to find ways his government can work together more effectively with us to combat cyber crime.) For his turn, Tariceanu put emphasis on the important role of the Bucharest based Southeast European Cooperative Initiative (SECI) Center in addressing trans-border crime. He stated that a continued, strong USG investment was vital for its future success. The PM added that a "new dimension" for SECI would be greater participation by Black Sea states, which were very interested in expanding their cooperation in fighting narcotics smuggling and trafficking in persons through the SECI center. Tariceanu said he was "very much preoccupied" by the pressure from "criminal gangs" operating out of the former Soviet Union, including within Romania, citing the energy and aluminum sectors in particular.

Justice and Corruption

4. (C) A highlight of the visit was the meeting with Minister of Justice Monica Macovei. Mueller's press statements received widespread televised coverage, emphasizing U.S. support for Macovei's anti-corruption efforts and successful cooperation in law enforcement. (Note: This was a well-timed public show of support for Macovei since Romanian lawmakers

have resisted Macovei's attempts to curb corruption, evidenced by their current opposition to the creation of an effective National Integrity Agency to monitor officials' illegitimate incomes (reftel A). End Note.) Macovei briefed

Mueller on Romania's difficulties in establishing special courts for corruption cases against government officials and for organized crime cases. She added, however, that these courts were starting to function. It was new territory for a Romanian system that in the past never tackled these

difficult issues.

5. (C) Mueller told Romania's new Prosecutor General Laura Kovesi that the FBI was willing to support her office through training and other support for prosecutors and investigators. He also expressed his hope that U.S.-Romanian collaboration on prosecuting cyber crime would grow. Kovesi agreed, pointing out that most of the cyber crime cases Romania investigates involve victims in the United States. She added that the quick and efficient exchange of information and the

setting up of joint teams would be essential to fighting cyber crime. Kovesi said she would welcome the FBI's insights on Romanian legislation, investigative techniques, and especially on managing information. Mueller suggested that an essential tool to address public corruption was the capability to intercept phone calls and the legal ability to use them in court. He said the FBI would be happy to help Romania on investigations, data management, legislation, and training, inviting Kovesi to visit Washington and its FBI facilities.

6. (C) In a meeting with Interior Minister Vasile Blaga, a key Basescu ally, Mueller noted that in addition to the war on terrorism, investigation of public corruption remained a priority issue. Blaga thanked the Director for the FBI's support, and noted that he had created a General Directorate

for Anticorruption (DGA) based on a Scotland Yard model to

fight corruption within the ministry. Unfortunately, he added, corruption remained endemic, with some 700 Romanian officials investigated on corruption charges in the past year. Mueller underscored that globalization and the spread of high technology fostered new challenges including cyber crime and trafficking, making it imperative to develop law enforcement relationships across national borders and jurisdictions. Blaga said he appreciated USG-led training opportunities, adding that the Task Force model introduced by

the FBI had improved Romanian capabilities, including the ability to combat TIP and cyber-crime. He acknowledged that cyber-crime and credit card fraud were growing problems, but stressed that Romania was working to improve multilateral cooperation including with the US, the UK, and Spanish authorities.

7. (C) Blaga said he hoped the "exceptional" relationship at the SECI center would continue in the future, and promised that he would continue to "harmonize" steps on SECI's future with the U.S. He said Brussels had provided an analysis on future SECI relations with EURPOL, which had concluded that the two institutions were complementary. While there was still some "reserve" on the part of EURPOL regarding SECI, Romania had clearly stated its preference to the EU for

continued cooperation with SECI. He added that both Germany and Austria were also supportive of SECI. He warned, however, that there might be "legal" problems involving data sharing with non-EU SECI partners (including Moldova and the Western Balkans) after January 2007.

8. (C) At a subsequent luncheon, Blaga said Romania needed to reassess its counter-terrorist strategy, including readjusting the division of responsibilities between the police, judicial organs and the intelligence agencies. He agreed with the current structure that gave Romanian intelligence agencies the primary role in coordinating CT matters, but argued that after a terrorist incident, Romanian police and public prosecutors should take the lead. He added

that the current Anti-Terrorist Bureau (ATB) lacked expertise in "pure" police work. Blaga said President Basescu had

assented to transferring some authorities over the ATB from the intelligence to the police side. While the intelligence function of the ATB would remain with the intelligence services, other parts of the organization dealing with response and protection would be transferred to the Gendarmerie. Blaga recounted how the kidnapping of three Romanian journalists in Iraq had underscored the difficulties in coordinating disparate intelligence and policing organs and had led to new initiatives to create an "intelligence community" within the Presidency and to the drafting of new legislation including a Homeland Security law. In response to a query from the Director about the potential terrorist threat posed by indigenous Muslim communities, Blaga responded that while there were approximately 50,000 Romanian Muslims, they had not to date posed a problem.

9. (C) Mueller also visited the Southeast European Cooperative Initiative (SECI) Center to highlight the FBI's strong support for the institution and to have a chance to meet with liaison officers assigned there. Director Mitja Mocnik highlighted for Mueller the technical improvements SECI had made in the last year, setting up national focal points in each member country and implementing a video teleconferencing system. Mocnik emphasized that U.S. cooperation and support for SECI was vital. Mocnik said most SECI members were not EU members, so it would not make sense for the EU to impose its rules; SECI was complementary to Europol not competitive. Countries like Germany, Austria, and the Netherlands had made their interest in SECI clear to cooperate on their own operations. He said the regional cooperation between Customs and Police in this region was

unique. He pointed out SECI's role in recent trafficking in persons cases, including one case that resulted in the arrest of 95 people. Mocnik added that the growing requests SECI receives shows that member countries are realizing they have access to use SECI as a tool. Mueller encouraged Mocnik to publicize better SECI's involvement in solving cases and

offered to send an analyst to help SECI highlight successes.

Intelligence Services

10. (S) Another highlight of the visit was the FBI Director's meeting with new Romanian Intelligence Service Director (SRI) George Maior. While Maior drew attention to the fact that Romanian membership in the EU would require Romania to make "certain adaptations" in its interaction with the U.S., the "special relationship" with the U.S. would continue to be a priority for Romania. Maior agreed with Mueller's assessment on the need to share information and said the bilateral cooperation would continue regardless of Romania's accession to the EU. He appreciated and welcomed additional U.S. help to make SRI more efficient. Mueller took note of Maior's

upcoming visit to Washington in January and invited him to visit Quantico.

11. (S) Maior said the SRI had launched a transformation process and was moving resources to counter emerging threats. He said terrorism was a concern that ranked high on Romania's list--not because of a perceived danger within Romania--but for solidarity and cooperation with allies. Maior pointed to "growing Russian influence and interests in Romania" as Romania's top internal security priority in the coming years, especially in the energy field. A third priority was developing new capabilities in combating organized crime, noting the "Russian factor" was very evident in organized

crime in Romania. Maior also listed Romania's interest in developing more capability in countering cyber crimes. He also cited the "American bases" (joint military facilities) and a potential focus on both terrorism and Russian influence. Illegal migration and drug trafficking was another vital issue, particularly since Romania has the longest European border with Ukraine and Moldova. Lastly, Maior mentioned SRI's focus on counter-proliferation. Maior noted

the good cooperation the SRI has had with the FBI during the last few years and he thanked the FBI for its role in helping

Romania's SRI to modernize, adapt, and train in areas such as counter-terrorism and counter-intelligence.

12. (S) Maior welcomed ideas on how Romania could work with the U.S., noting he "really believes in strong cooperation." Maior said that Romania was attempting to create a true intelligence community and that SRI's cooperation with the External Intelligence Service (SIE) was developing well. Maior said they were at the difficult stage of changing legislation. Mueller suggested one important tool to counter public corruption and terrorism was the plea bargain to provide a real incentive for cooperation. Mueller advised the SRI chief to keep the criminal justice system in mind

when looking for intelligence sources and that wire intercepts should be useable in court, since there was nothing more effective than using the words of the individual in a trial. He commented that Europe tends to use wire intercepts solely for intelligence, but that U.S. prosecutors could not imagine doing their job without such key pieces of evidence to use in court. Maior said too often the European debate was framed in abstract terms due to a "lack of experience facing the big problems," and that even in Romania there was an ongoing intense public debate on the mixture

between intelligence and the judicial system. Maior argued, however, that "we can't fight new threats without adapting." Maior's first deputy added that the SRI aimed to develop a program of using undercover officers in coordination with prosecutors and the SIE. He said it was in the law but not yet functioning and that they would more than welcome the FBI's assistance to develop such methods and programs. He believed such a program would be essential for countering Russian influence, organized crime, and terrorism. Mueller responded that the FBI would be happy to focus on helping Romania develop undercover officers.

13. (S) At the External Intelligence Service headquarters, director Claudiu Saftoiu told FBI Director Mueller that Romania wants to strengthen the strategic partnership. Saftoiu noted, however, that Romanians considered terrorism something far away and that the public was not convinced to

move forward with laws establishing a national security community. Mueller thanked Saftoiu for support in Iraq and Afghanistan, but also cautioned that Romania's support for the U.S. had not gone unnoticed by terrorist groups like Al Qaeda. He mentioned a concern that terrorists would seek to enter Europe via Romania.

14. (S) Saftoiu promised that Romania would stay with the U.S. in Iraq and Afghanistan and said Romania hoped the U.S. would, in return, support Romania in the Black Sea region to help stabilize it. Saftoiu also mentioned the difficulties Romania was having in creating a national intelligence

community. Saftoiu said Russia remained the critical immediate and growing threat, both in terms of its reach into Romania's economy and its control of energy markets. Mueller mentioned Mikhail Chernoy's RAFO purchase (reftel B) and promised to provide information on Chernoy to help Romania take some of the "tough political measures" Saftoiu indicated were being considered. Saftoiu said another oil company, OMV, may sell its stake in OMV-Petrom to Russian companies.

Mueller also noted Romania's emergence as a hub for cyber crime and commented on the counter-intelligence threat similar hackers have become working for Russia and China. Mueller invited Saftoiu to visit the FBI in addition to the CIA when he comes to Washington in March 2007.