

RUSSIAN
ORGANIZED
CRIME

*Global Organized
Crime Project*

RUSSIAN ORGANIZED CRIME

Global Organized Crime Project

PROJECT CHAIR:

WILLIAM H. WEBSTER

PROJECT DIRECTOR:

ARNAUD DE BORCHGRAVE

PROJECT CODIRECTORS:

ROBERT H. KUPPERMAN & ERIK R. PETERSON

TASK FORCE CHAIR:

GERARD P. BURKE

TASK FORCE DIRECTOR:

FRANK J. CILLUFFO

TASK FORCE RESEARCHER:

ROBERT J. JOHNSTON

About CSIS

The Center for Strategic and International Studies (CSIS), established in 1962, is a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary.

CSIS is dedicated to policy analysis and impact. It seeks to inform and shape selected policy decisions in government and the private sector to meet the increasingly complex and difficult global challenges that leaders will confront in the next century. It achieves this mission in three ways: by generating strategic analysis that is anticipatory and interdisciplinary; by convening policymakers and other influential parties to assess key issues; and by building structures for policy action.

CSIS does not take specific public policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the authors.

CSIS President: David M. Abshire

CSIS Executive Vice President and Chief Operating Officer: Anthony A. Smith

CSIS Executive Vice President: Douglas M. Johnston, Jr.

Managing Director for Domestic and International Issues: Richard Fairbanks

Director of Studies: Erik R. Peterson

Director of Publications: James R. Dunton

Library of Congress Cataloging-in-Publication Data

Russian organized crime / Global Organized Crime Project; project chair William H. Webster ... [et al.].

p. cm. — (CSIS task force report)

Includes bibliographical references.

ISBN 0-89206-293-2

1. Organized crime—Russia (Federation) 2. Political corruption—Russia (Federation)

3. Transnational crime—Russia (Federation) 4. Russia (Federation)—social conditions—1991–

I. Webster, William H. II. CSIS Global Organized Crime Project. III. Center for Strategic and International Studies (Washington, D.C.). IV. Series.

HV6453.R8R865 1997

364.1'06'0947—dc21

97-33442

CIP

© 1997 by The Center for Strategic and International Studies.

All rights reserved.

ISBN 0-89206-293-2

The Center for Strategic and International Studies

1800 K Street, N.W., Washington, D.C. 20006

Telephone: (202) 887-0200

Fax: (202) 775-3199

E-mail: books@csis.org

Web site: <http://www.csis.org/>

Acknowledgments

CSIS gratefully acknowledges the contribution made by the members of the Russian Organized Crime Task Force and those agencies and organizations without whom the work could not have been accomplished. They are the Departments of Defense, Energy, Justice, and State; the Federal Bureau of Investigation; the U.S. Customs Service; the Foreign Military Studies Office; the National Defense University; the U.S. Senate Permanent Subcommittee on Investigations; the Dziak Group, Inc.; the Hamilton Trading Group; JNA Associates; and the American Foreign Policy Council. For assistance with the appendices, CSIS would like to thank Russell Ross of the Overseas Security Advisory Council and the Dziak Group, Inc. CSIS would like to recognize especially the contribution made by the Parvus Group.

The work of this task force could not have been completed without the generous financial support of the Sarah Scaife Foundation, the John M. Olin Foundation, and the Shelby Cullom Davis Foundation.

CSIS also acknowledges the counsel of the Global Organized Crime Steering Committee, whose advice and scrutiny of the task force's report added an important dimension to the task force's recommendations.

The opinions, conclusions, and recommendations expressed or implied in this report are solely those of the Global Organized Crime Project and do not necessarily represent the views of those organizations just acknowledged.

Table of Contents

Participants	ix
Foreword	1
Preface	9
Key Findings	10
Summary of Recommendations	12
1. The Impact of Russian Organized Crime on Russia and the United States	15
Organized Crime and Russia: Understanding the Corrupt State	15
Russian Organized Crime: Threats to the United States	17
The Law Enforcement Dimension: The Domestic and Transnational Effects of Russian Organized Crime	18
The National Security Dimension: Eroding Russian Democracy and Illicit Procurement of Nuclear Materials	19
2. What Is Russian Organized Crime?	23
Defining Russian Organized Crime	23
The Size and Scope of Russian Organized Crime	24
The Evolution of Russian Organized Crime	26
Loci of Criminality	27
<i>Krysha</i>	29
Financial–Industrial Groups	31
Crime in Russia’s Military	32
The Russian State and Russian Organized Crime	34
3. Recent Trends in Russian Organized Crime	36
Activities Involving a High Degree of Sophistication	36
Economic Crime	37

Use of Violence	40
Transnational Implications	42
Corruption in the Bureaucracy	45
4. The Relevance of Russian Organized Crime	50
Task Force Assessment: Future Development of Russian Organized Crime—An Emerging Criminal-Syndicalist State?	50
The Russian Organized Crime–Security Services Link	51
Task Force Assessment: The Dangers of Destabilization in Russia	56
Russian Organized Crime and Destabilization in Russia	56
Destabilization in Russia: Entrenching Transnational Russian Organized Crime Activity	60
Destabilization in Russia: Weakening Safeguards over Fissile Materials	61
5. Prognosis and Recommendations: How Should Russian Organized Crime Be Addressed?	64
Prognosis	64
Russia’s Campaign Against Russian Organized Crime	65
Anticrime Decrees in the First Yeltsin Administration	67
The Lebed Anticrime Decrees	68
Recommendations for the U.S. Government	71
Appendix A: Significant Dates and Incidents in Russian Organized Crime	79
Appendix B: The “Iron Triangle” of Contemporary Russia	89
Appendix C: Corruption and Criminality in Russia: The Systemic Roots	90
Glossary	93

Participants

Global Organized Crime Steering Committee Membership

Chair

William H. Webster
*Former Director, Central Intelligence Agency
Federal Bureau of Investigation*

Director

Arnaud de Borchgrave
Senior Adviser, CSIS

Project Assistant Director

Frank J. Cilluffo
Senior Analyst, CSIS

Members

Duane Andrews
*Former Assistant Secretary of
Defense
(Director C³I)*

Robert Bonner
*Former Administrator
Drug Enforcement Agency*

William Cohen
*U.S. Senator (Ret.)
(currently serving as Secretary of
Defense)*

Robert Gates
*Former Director
Central Intelligence Agency*

Carol Hallett
*Former Commissioner
U.S. Customs Service*

Admiral James R. Hogg
U.S. Navy (Ret.)

Fred C. Iklé
Former Undersecretary of Defense

Stuart Knight
Director, U.S. Secret Service (Ret.)

Patrick Leahy
U.S. Senator

William McCollum

U.S. Representative

Steering Committee Members, continued

General Edward C. Meyer
U.S. Army (Ret.)

Lieutenant General Edward Soyster
Former Director
Defense Intelligence Agency

Sam Nunn
U.S. Senator (Ret.)

J. Chips Stewart
Booz, Allen and Hamilton

Oliver Revell
Former Associate Deputy Director
Federal Bureau of Investigation

Richard Thornburgh
Former U.S. Attorney General

William Roth
U.S. Senator

R. James Woolsey
Former Director
Central Intelligence Agency

William Sessions
Former Director
Federal Bureau of Investigation

William Zeiner
Director, Criminal Justice
MITRE Corp.

Admiral William D. Smith
U.S. Navy (Ret.)

**Global Organized Crime
Russian Organized Crime Task Force**

Project Director

Arnaud de Borchgrave
CSIS

Task Force Chair

Gerard Burke
The Parvus Group

Task Force Director

Frank J. Cilluffo
CSIS

Task Force Researcher

Robert J. Johnston
CSIS

Task Force Members

Michael Bopp
*Permanent Senate Subcommittee
on Investigations*

James Brusstar
National Defense University

Jack Dziak
Dziak Group, Inc.

John Hurley
U.S. Customs Service

Eric Lebson
*USAsia Commercial Development
Corp.*

Nancy Lubin
JNA Associates, Inc.

John MacGaffin
Central Intelligence Agency (Ret.)

John Martin
Department of Justice

Stephen McAlexander
Federal Bureau of Investigation

James Moody
Federal Bureau of Investigation (Ret.)

Rick Mosquera
Federal Bureau of Investigation

Jack Platt
Hamilton Trading Group

Russell Ross
Department of State

John Sopko
Department of Commerce

Graham Turbiville
Foreign Military Studies Office

Robert B. Wade
America Online

Russian Organized Crime and Transnational Alliances

Russia's new economic reformers face a formidable challenge without historic precedent. Despite the appointment of a reform-oriented cabinet in March 1997 that began to chip at the granite-like foundations of Russia's monopolies, major obstacles to economic and political reform remain. Laying out a vision of Russia's role in the world in the twenty-first century, the Kremlin's Security Council concluded that the main threat to Russia's security comes not from external enemies but from homegrown social and economic problems. For the sixth consecutive year, gross domestic product (GDP) has plummeted 6 percent. One-quarter of the population struggles to make ends meet below the poverty line of \$25 a month. Life expectancy has dropped from 69 years in 1990 to 57.7 years in 1996. Demographers predict Russia's population will fall from 147 million to 123 million over the next three decades, a unique decline within a country in peacetime.

Despite these problems, Russian president Boris Yeltsin confidently predicted in July 1997 that the economy finally had bottomed out and that 1998 would see a substantial upturn. But the majority of Russia watchers warn against too much optimism. A host of other factors, ranging from the paralysis in tax reform, the failure to restructure privatized companies, the lack of liquidity, and the fragility of the banking sector, to the potential overvaluation of the stock market, all support caution in predicting a rapid turnaround.

Similar uncertainty exists with respect to Yeltsin's other major reform program, in the armed forces, where conditions have gone from bad to worse. On February 14, 1997, the commander of the Siberian Military Region sent President Yeltsin a telegram to inform him that "Officers and men have reached the limits of survival. No one has been paid in six months. Many families do not even have enough money to buy bread." Then-minister of defense Igor Rodionov's subsequent message to the president was even more ominous: "Russia will soon reach a limit beyond which we will not be able to control missiles and nuclear systems." Four months after this bold statement, Rodionov was fired, ostensibly for dragging his heels on reform. The symptoms of distress are obvious, however, despite the political machinations. Over 500 soldiers committed suicide during 1996 and over 1,000 were slain under dubious circumstances, including hazing, according to the Ministry of Defense itself.

Not surprisingly, the armed forces are riddled with corruption. More than 100 generals and admirals, a deputy minister of defense, and two other top officials from the Ministry of Defense are under investigation for corruption and embezzlement. Some 6,000 crimes were committed by the military in 1996. Black market sales of military hardware to foreign countries are commonplace. The proceeds are

used to buy or build homes for senior officers. President Yeltsin's plan to reduce the armed forces by 500,000 servicemen could provide a clash with hawkish nationalists as well as the corrupt generals and defense officials who are profiting from the current chaos in the military.

General Stanislav Gaveto, deputy chief military prosecutor of the Russian Federation, in an April 1997 interview attributed "extremely lamentable" instances of bribery and lawlessness in the military to the "wholesale criminalization of the life of our entire society, the fact that every pore of the state mechanism is steeped in corruption and abuse, and the degeneration and destruction of moral values, which have shaped people's outlook."

The political, social, and economic crises in Russia have caused considerable concern in the West, but the link between these dilemmas and the phenomenon of Russian organized crime (ROC) is too seldom recognized. What President Yeltsin described in 1994 as the "biggest mafia state in the world" and the "superpower of crime" has metastasized into what Grigory Yavlinsky, leader of the liberal Yabloko party and chairman of the Center for Economic and Political Research, calls a "semi-criminal oligarchy." The fusion of criminal capital with an unreconstructed, corrupt state bureaucratic machine in Russia has led to what the chairman of the U.S. House International Relations Committee, Benjamin A. Gilman, characterizes as "virtually a full fledged kleptocracy." The directors of Western intelligence agencies now have irrefutable evidence that organized crime (OC) syndicates in Russia enjoy the protection of the ruling oligarchy that rose in the early post-Soviet period and consolidated its power during President Yeltsin's illnesses in 1996. Yuri Luzhkov, the powerful mayor of Moscow and a candidate to succeed Mr. Yeltsin in 2000, says Russia now faces "unlimited criminalization of the economy...and of the government itself."

Russia's Ministry of Internal Affairs (*Ministerstvo Vnutrennykh Del*, or MVD), the government agency in charge of combating OC, estimates that 40 percent of private business, 60 percent of state-owned enterprises, and between 50 percent and 85 percent of banks are controlled by OC. All told, roughly two-thirds of Russia's economy is under the sway of the crime syndicates. Protection rackets have been the norm since the collapse of communism. The majority of private enterprises and commercial banks are compelled, by force if necessary, to pay protection in the amount of 10 percent to 30 percent of their profits to OC. Protection rackets are also the reason that there have been far fewer small business startups in Russia than in the former communist states of Eastern and Central Europe. Transparency International, the Berlin-based nongovernmental organization dedicated to fighting corruption, rated Russia as the 4th most corrupt country out of 50 in a 1997 survey, along with Colombia, Nigeria, and Bolivia. U.S. business executives rate Russia as one of the worst places in the world to do business not only because of endemic crime and corruption, but also contract repudiation and the uneven application of laws. In the absence of effective business law and effective courts, criminals and gangs have become de facto adjudicators. Protection rackets in effect have usurped government's traditional legal functions and safeguards.

Some 8,000 crime gangs operate throughout the former Soviet republics. The 200 largest are now global conglomerates; the 26 principals have established a

presence in the United States, where they negotiated division of labor arrangements with American, Sicilian, and Colombian crime syndicates. Their criminal activities have been detected in 17 U.S. cities.

The director of the U.S. Federal Bureau of Investigation (FBI), Louis Freeh, has testified before congressional committees that Russian crime syndicates have established working relationships with counterparts in 50 other countries, up from 29 countries in 1994. U.S. Attorney General Janet Reno has made ROC and its transnational alliances a priority target for the Department of Justice, while law enforcement agencies in the United States and Europe are treating the scourge as a major threat and are attempting to develop and coordinate strategies.

Two directors of central intelligence (DCIs)—R. James Woolsey and John Deutch—have testified before Congress that transnational alliances of crime syndicates pose a formidable threat to peace and stability in the world. CSIS's two-year-long investigative study of ROC and its international connections has established that, after the fall of the Soviet Union and the birth of the Russian Federation, the *Komitet Gosudarstvennoy Bezopasnosti* (KGB) and its sister intelligence agencies downsized their cadres by some 100,000 personnel. Intelligence trade-craft, contacts, and skills were much in demand with crime syndicates, providing an employment venue for former members of the KGB from all ranks and specializations. (For example, those who had worked abroad as spies were familiar with "safe" financial conduits for money laundering.) The KGB also emptied its prisons of hardened criminals, many of whom found their way to the United States with forged passports and fictitious *curricula vitae*.

There now is ample documentary evidence of the criminalization of Russia's economy and politics. After 10 years as chairman and ranking Democrat on the U.S. Senate Subcommittee on Terrorism, Narcotics, and International Operations, Senator John Kerry (D-Mass.) has commented that the "real power lies with the Russian godfathers and their allies—former KGB officials with important positions in the sectors of the economy, whether privatized or still under state control, and corrupt politicians in high office" (*The New War* [New York: Simon and Schuster, 1997], pp. 40–41). At all levels of Russia's government, a blend of the more agile members at the top of the old *nomenklatura*, corrupt government officials, and mafia *nouveaux riches* compete among themselves and with honest officials for control of the instruments of state power—the most certain guarantee of wealth in post-Soviet Russia. In Russia's cities, corrupt mayors and coopted city councils employ *kryshas*, or protection "roofs" of private security forces, to conduct criminal enterprises.

Russia's wealth has been plundered since the Soviet Union imploded, and tens of billions of dollars have been moved to safe havens in offshore banking centers. The principal beneficiaries of privatization—conducted at "auctions" rigged in favor of pre-selected individuals or banks—have been the OC syndicates. According to the Analytic Center of the Russian Academy of Sciences, "55 percent of the capital and 80 percent of the voting shares were transferred, during privatization, into the hands of domestic and foreign criminal capital." Russian Prosecutor General Yuri Skuratov reported some 2,000 privatization crimes in 1996 alone.

In early 1996, at a meeting sponsored by the MVD, the principal specialist on capital export stated that \$150 billion had left Russia in the previous seven years. That figure is now closer to \$200 billion; some Russian estimates go as high as \$300 billion. OC bosses and their clients in the new *nomenklatura* have purchased choice properties from Buenos Aires to Berlin and from Tunisia to Thailand. They crave respectability, from expensive wardrobes and country club memberships to high-tuition, posh boarding schools for their children. OC shaped the post-communist banking industry and now manages or influences it. And bank regulators complain they are powerless to sanction or close banks in which evidence of criminal wrongdoing has been established beyond the shadow of a legal doubt. In 1997, Russia's Central Bank reported that three commercial banks had diverted some \$500 million in federal budget funds into the high-yielding government securities market. The banks then claimed market losses, and the government was powerless to get its money back, including \$237 million earmarked to finance the construction of MiG fighter aircraft for sale to India. Efforts to investigate this case led to shots being fired at the home of the chief of Russia's Central Bank, Sergei Dubinin. The economic reforms spearheaded by First Deputy Prime Minister Boris Nemtsov, along with measures to limit commercial and bank secrecy, may make corrupt banks more accountable.

In May 1997, President Yeltsin launched his sixth anticorruption campaign in as many years. This time, Decree No. 484 requires senior government officials (but not members of the State Duma) to submit yearly declarations of their incomes and property holdings to tax officials and personnel departments. The decree gives everyone ample time to transfer assets abroad or to relatives. Boris Berezovsky, President Yeltsin's deputy national security chief, is a multibillionaire (*Forbes* ranks him 193 in the world at \$3 billion). But his statement of total worth is \$39,000.

But Russia's State Duma still passes laws that are ignored while OC makes rules that are enforced ruthlessly. Contract murders average 500 a year; almost none is ever solved. There is no law enforcement agency able to provide protection from the all-powerful syndicates. It remains to be seen whether the new criminal code that went into effect on January 1, 1997, can be enforced. Prosecutor General Skuratov captured the problems of enforceability in Russia when he stated in February 1997 that he was

greatly troubled by the extremely incoherent—I can find no other word—official policy of counteracting crime. Why are we adopting all these programs—presidential, governmental? Merely to reassure the public, I believe. Because practically no money has been allocated for these programs. They are not of a systemic nature. Everything in them has been reduced to the work of the law enforcement authorities. Yet the efforts of both the executive and the legislative are needed here.

The precedent is yet to be established “of a highly positioned official being held responsible for his crimes,” Mr. Skuratov told *Business in Russia* (August 1997). “That is precisely why the fight against crime is a façade.”

President Yeltsin's own Kremlin analytical service issued a report in January 1994, based on research done across Russia, that said that law enforcement organs have been "thoroughly compromised by organized crime." In 1996, the MVD issued 857 indictments of corrupt officials, and thousands of other cases remained under investigation. Few ever come to trial. The political reality in Russia places enormous pressure on noncorrupt government officials. As one Russian survivor of an encounter with ROC put it, officials asked to perform a service for the *mafija* face a "silver or lead choice": cooperate and take the money or be killed. Any individual within the government not on the take is viewed with suspicion by corrupt superiors. Honesty is a risk to both their personal safety and their professional prospects. The corrupt culture within the government is the legacy of communism, a system in which corruption was the only means to move a stagnant government.

OC is the key factor that undermines democratization. The OC syndicates promote their own candidates for office, provide financing, and, once their candidates are elected, acquire parliamentary immunity. They also can purchase positions as aides to Duma members on the black market for \$4,000 to \$5,000. OC is able to influence directly any attempt to clean up their corrupt practices. John Deutch, while DCI, told Congress that a "link between the governing elite and the criminal elements impedes the ability of the Russian government to meet the population's expectations of social justice, equality of opportunity, and improved living standards." The cabinet appointed by President Yeltsin in March 1997, led by Anatoly Chubais—"Russia's most talented administrator and most loathed politician" according to the *Financial Times*—and Boris Nemtsov, a self-described "kamikaze," faces a formidable challenge in reversing Russia's slide into a criminally directed society. Failure would foster further instability in a major nuclear power, boding ill for the rest of the world.

As Russia's decline toward destitution continues, and the taxes needed by the government to pay its soldiers, scientists, weapons designers, and civil servants go uncollected, millions of workers now are paid with the goods they produce. Frustration over unpaid wages brought 1.8 million workers to the streets in a nationwide strike on March 27, 1997, in what is the single largest anti-Yeltsin demonstration of his presidency to date.

Thousands of shell companies have been opened by one OC syndicate to export capital. Shell companies also market fraudulent invitations to Russians trying to obtain visas to West European countries, the United States, and Canada. Credit cards are issued to these phony companies and are used to buy goods in Russia—until the bills reach their credit limit and the cards are canceled.

Media outlets—with two notable exceptions in Moscow—are increasingly the property of OC-controlled banks and other oligarchies, and editors are instructed by their new owners to level charges of corruption against Mr. Nemtsov, the only top official who seems determined to tackle OC and what he calls "bandit capitalism." Investigative stories of the banking and financial sector that redound unfavorably on the owners have been spiked. European and U.S. newspapers and magazines that report on ROC have found themselves the targets of intimidating lawsuits filed using top-flight libel lawyers.

John Deutch, as DCI, testified in 1996 that “Corrupt officials supply the crime syndicates with export licenses, customs clearances, tax exemptions and government contracts...officials of law enforcement and security services provide criminals with protection from arrest and prosecution.” The international activities of these criminal groups threaten U.S. national security interests. They are trafficking increasingly in weapons by exploiting corruption, subhuman living conditions, and chronically late wages in the Russian military. This leverage gives them access to arms stockpiles. Theft and illegal sales of weapons, hardware, and narcotics are moved by military transport vehicles that cannot be searched by law enforcement officials. Western intelligence agencies believe that short- and medium-range missiles have been smuggled to customers in the Middle East in this manner. OC groups also are facilitating narcotics trafficking along new transit routes from major heroin-producing areas in Asia (the Golden Triangle and Golden Crescent) that cross the former Soviet Union, thus avoiding searches by West European law enforcement agencies along the more traditional routes.

By the time President Yeltsin returned to the political fray in March 1997 with all rhetorical guns blazing—“I want to hand over to my successor a country with a dynamically growing economy, with an effective and just system of social protection, a country whose citizens are confident of their future”—many believed he had become constrained by criminal forces that were, in effect, dismantling the vertical system he had created and replacing it with a corrupt oligarchy. In his State of the Federation message, President Yeltsin claimed that the mafia was challenging the state. Coopting the state would have been a more accurate description.

Amid the doom and gloom surrounding Russia, there is room for hope. The oligarchs now find that their empires no longer enjoy complete impunity. Although incomplete and tenuous, recent indications of a crackdown on corruption and financial fraud in the energy and transportation monopolies are an encouraging step in this direction. Mr. Nemtsov highlights the importance of reforming the monopolies when he argues that “those who defend the monopolies in their current form are consciously or unconsciously defending corruption.”

As this report goes to press in August 1997, bitter clashes over the privatization of the Svyazinvest telecommunications group and the Norilsk mining group are capturing headlines. Struggles for control of newly privatizing state enterprises between rival political-financial “clans” once again are breaking out, apparently putting an end to the ceasefire established among Russia’s largest financial-industrial groups and banks when they united behind President Yeltsin against the Communists in advance of the June 1996 presidential election. Throughout the post-Soviet period, the battles to assume ownership of state enterprises usually have reflected Russian business practices at their worst. Bribery, slander in the media, fraud, intimidation, and even murder have been brought to bear on behalf of the various coalitions of dubious businessmen, corrupt officials, and outright gangsters that have dominated the privatization process so far. At least in the Svyazinvest case, the Chubais/Nemtsov-led reform “clan” successfully challenged the other, more corrupt and criminal clans to regain control of the privatization process in what observers agree appears to be an open and honest auction. In what may be their most important test in cleaning up the privatization process, the Chubais/

Nemtsov clan now must prove that it can repeat this success and steer clear of corruption and cooption by criminal elements.

The reformers' comeback (their predecessors were fired in 1992) has given Russia a chance to avert economic meltdown. If they can stay the course and put an end to tax dispensations that totaled \$30 billion in 1996, Russia could move away from a semi-criminalized economy and resume its transition to a market economy under the rule of law and to genuine democracy. Russians would enjoy the benefits of their private property and businesses for themselves, without paying tribute to gangsters. More foreign investors are bullish and now are pouring \$1 billion each month into Russian stocks while Russian capital continues to find safe havens abroad. A critical test for Nemtsov and his team of reformers will be to ensure that this influx of foreign capital is plowed into resolving Russia's desperate need to upgrade infrastructure, technology, and education, and is not simply diverted into the offshore bank accounts of members of the oligarchy and their criminal counterparts. To prevent this, the reformers must improve the rights of shareholders, strengthen law enforcement and financial oversight, and crack down on corruption. Otherwise, the economic reform program once again will fall prey to the financial manipulation and physical intimidation tactics of ROC groups.

Although critical, economic reform alone is not enough to end OC's stranglehold on Russia's state and economy. The Russian Organized Crime Task Force believes that the only nonviolent way out of the present impasse is the rise of a legal and judicial system that is truly independent and incorruptible.

In conclusion, the Russian Organized Crime Task Force believes it is essential for everyone to know precisely what Russia is today because it is not possible to formulate an effective foreign policy based on an erroneous model. Western hopes for the legitimization of the Russian variant of "robber barons" will not bring forth stabilization. As Grigory Yavlinsky wrote last July in the *New York Times Magazine*, "The path which Russia is traveling cannot be hidden forever...and the longer it is concealed, the higher the price will be—for everyone." If the forces of organized crime are not stymied, Russia will complete its devolution into a criminal-syndicalist state. The United States then would be faced with an agonizing reappraisal of its diplomatic and commercial relations with Russia.

Judge William H. Webster
Project Chair

Arnaud de Borchgrave
Project Director

Preface

Russian Organized Crime: A Panel Report of the CSIS Global Organized Crime Project's Russian Organized Crime Task Force is the second in a series of Global Organized Crime (GOC) publications. More are expected over the coming months. By bringing together multi-disciplinary expertise and research, the GOC Project provides a vehicle to develop strategies and actions to understand and respond better to the increasing challenges posed by transnational crime. Each of the separate task forces focuses on a specific set of issues and threats with a view toward more precise policy, technological, and organizational recommendations.

The Russian Organized Crime (ROC) Task Force is comprised of senior-level representatives of the U.S. government and individuals from the private sector who are involved in the study of ROC activities in Russia, the United States, and elsewhere.

The ROC Task Force began its deliberations in early 1995 with a set of focused objectives: “to assess the impact of ROC, make recommendations about how the issue should be addressed, and raise awareness of global organized crime issues.”

These objectives have been met through a variety of methods. Task force members, some with decades of U.S. government experience dealing with international crime problems on both open and classified levels, have provided extensive information through their frank and thought-provoking commentary on the relevant issues. The task force has spent numerous sessions examining the cultural, societal, and economic aspects of the problem presented by ROC. It collected data from September 1994 to April 1997, taking off-the-record testimony from active intelligence officials, former Russian government officials, and businessmen, as well as from experts from business, academia, and the media.

The report is broken down into five chapters. The first chapter outlines the impact of ROC in both Russia and the United States. The second chapter provides an in-depth overview of the varied structures and characteristics of OC groups in Russia. Chapter three analyzes trends relating to the modus operandi and the increasingly sophisticated capabilities and transnational reach of ROC. Chapter four assesses the relevance of ROC for U.S. foreign policy and foreign investment. Chapter five presents a plan for action and a number of specific recommendations to prevent, deter, combat, and mitigate the threat of ROC. The appendices identify significant ROC incidents and examine some of the historical roots of the OC phenomenon in Russia.

Key Findings

The Russian Organized Crime Task Force has determined that the following items are substantive points relative to understanding the nature and threat of ROC:

- ❑ Left unchecked, Russia is in danger of becoming a “criminal-syndicalist state”¹ under the control of corrupt government bureaucrats, politicians, businessmen, and criminals with which normal relations would be impossible.
- ❑ ROC constitutes a direct threat to the national security interests of the United States by fostering instability in a nuclear-armed major power.
- ❑ Equally ominous is the challenge to national security and law enforcement posed by the transnational operations and alliances of ROC groups. According to the FBI, ROC groups now have relations with their criminal counterparts in 50 countries, up from 29 countries just two years ago. Overall, some 200 large, sophisticated ROC groups are now operating worldwide.
- ❑ ROC groups hold the uniquely dangerous opportunity to procure and traffic nuclear materials.² Russia’s former minister of defense, Igor Rodionov, has indicated that, without immediate payment of back wages, the “Defense Ministry cannot guarantee that some undesirable and uncontrollable processes will not develop in the armed forces.”
- ❑ The criminal environment in Russia is often compared with the “robber-baron” era of U.S. history.³ This is a false analogy. ROC groups stash untold billions abroad and seldom reinvest their earnings to bolster the domestic economy through the building of modern infrastructure.
- ❑ The corruption that pervades every level of Russia’s bureaucracy is the major impediment to combating OC in Russia.
- ❑ The processes of democratization and economic liberalization in Russia are being seriously undermined by ROC.

1. The term “criminal-syndicalist state” refers to a state controlled by a tightly interlinked cadre of corrupt officials, crooked businessmen, and criminals. For a full definition and description of this term, see box on page 26.

2. Chemical and biological weapons and materials are also available in Russia, but are they less likely to attract ROC interest because they can be procured or even produced elsewhere.

3. See Frank J. Cilluffo and Robert J. Johnston, “Kremlin Kapitalism,” *International Economy* XI (4), July–August 1997, pp. 58–61.

- ❑ The erosion of the government by ROC is imperiling cooperative efforts in the areas of peacekeeping, nonproliferation, and economic restructuring.
- ❑ ROC has extended its tentacles throughout Russia's economy, which confers an aura of legitimacy to myriad illicit activities, including the manipulation of Russia's banking system and financial markets.
- ❑ In the absence of effective courts, a working judicial system, and consistent enforcement of established commercial and contract law, criminal elements have become de facto adjudicators. Protection rackets in effect have usurped the government's traditional legal functions and safeguards.
- ❑ Efforts within Russia to combat OC—by the government, the media, and others—have been weak, often side-tracked because of fear and bribery, and frequently derailed by assassinations.

Summary of Recommendations

The Russian Organized Crime Task Force recommends that the following actions be taken:

- ❑ ROC should receive public recognition from the president of the United States as a national security threat.
- ❑ The development of a free market in Russia founded on the rule of law should be recognized as the only long-term policy solution for ROC and must be central to all U.S. policy decisions.
- ❑ In order to mitigate instances of corruption within the Russian government, U.S. policies and actions should shift from support for political personalities to support for segments of the Russian government that are working to usher in the rule of law. Strengthening the rule of law will foster the emergence of a viable market economy in Russia, free from the coercion and extortion activities of ROC groups.
- ❑ Russia must work toward the creation of a strong and impartial judiciary to implement and enforce a fair body of civil, criminal, and contract law to regain control over the adjudication role currently played by ROC groups.
- ❑ U.S. support for reform should reinforce training and exchanges such as those currently in place, funded through the National Endowment for Democracy, the Department of Justice, and the Agency for International Development. These programs, as well as similar efforts within the private sector and the academic community, should be continued and expanded through appropriate funding by Congress.
- ❑ A similar effort should be undertaken in the private sector to support legitimate regulation of Russian industry, business, and trade. Specifically, the Russian government should be assisted in establishing uniform business operation regulations, professional standards for certain industries, and requirements for the issuance and regular renewal of business licenses and other permits.
- ❑ Stringent requirements to ensure transparency in Russia's use of foreign aid, as well as multilateral loans and export financing, should be implemented and enforced to insulate the funds from OC and to ensure that the funds

reach their intended destinations.

- ❑ The United States should initiate a discussion at the level of the Summit of the Eight of an investment treaty to deny export credits to Western firms doing business with OC-controlled firms in Russia.
- ❑ Because ROC activity requires a response from multiple U.S. government agencies with multiple roles and missions, decisions over whether prosecution or foreign policy objectives should take precedence should be made on a case-by-case basis.
- ❑ Because businesspersons often become the targets of ROC activity, a greater effort should be made to provide them with relevant information. The Foreign Commercial Service of Department of Commerce in conjunction with the Overseas Security Advisory Council of the Department of State should work with other U.S. agencies and the Russian government to advise and support businesspersons, providing them especially with alternatives to paying extortion to criminal elements in Russia.
- ❑ A shared public database on ROC, including a collation of declassified and open-source materials, also should be created to assist investors from the United States and other countries. The database could be supplemented by a classified database for use by U.S. government agencies only. Considering the transnational breadth of ROC activity, a database supporting intelligence-sharing among various groups like the P-8, Europol, and the “six nation group”⁴ addressing the transnational aspects of the ROC threat is also necessary.
- ❑ The U.S. intelligence community must be directed to fill the immense intelligence gaps on ROC. Their elements should use well-tested operational know-how and tradecraft to recruit informants inside ROC or induce defections from the various ranks of people who can provide hard, inside knowledge of how the various ROC elements operate, do not operate, cooperate, and do not cooperate.
- ❑ The interpenetration of Russian officialdom, businesses, and criminal organizations make it more imperative than ever that U.S. law enforcement and intelligence agencies fully cooperate and share the fruits of their respective disciplines to serve U.S. policy, security, and commercial interests more capably.
- ❑ Close U.S. government identification with corrupt elements of Russia’s political establishment risks serious popular backlash inside Russia. The United States must avoid the appearance of unqualified support for what is routinely seen as a kleptocratic establishment. Such linkage reinforces a

4. The “six nation group” includes the United States, Canada, the United Kingdom, Germany, Italy, and Russia.

growing popular perception that democratic political and market economic systems are merely code words for rapacious criminality. The United States should address this perception by increasing its public diplomacy discussion of the causes of and cures for ROC.

- The U.S. government must support not only senior-level reformers in the Russian government, but reformers outside government as well. The United States should not remain silent in the face of official hostility to respected human rights leaders like Sergey Kovalev of the Sakharov Foundation or fabricated charges against the environmentalist Captain Nikitin.

The Impact of Russian Organized Crime on Russia and the United States

You are expanding NATO because 100,000 people were killed in Chechnya, because we have an unpredictable leadership, because we have corruption, because there are enormous failures in economic reform. You should say so openly. I know that an enormous amount of time and money has been spent by the [U.S.] government, by the private sector, by foundations and universities in promoting the myth that Russia has achieved democracy. It would take great courage to admit that the taxpayers' money was wasted. But it is always better to be honest.

Do not give up on Russia.... Tell the truth to us and yourselves. It is this false political picture of what is going on in Russia that is creating the climate for business failure. American businesspeople are coming here with the notion that they can do business, as if Russia were California, Michigan, or Texas. They find instead that they are expected to give bribes. They become frustrated and leave. Or they pay the bribes, which is bad for them and bad for Russia.

—Grigory Yavlinsky,
economist and leader
of the liberal *Yabloko* party,
June 8, 1997,

as quoted in the *New York Times Magazine*

Organized Crime and Russia: Understanding the Corrupt State

If Russian Organized Crime (ROC) is left unchecked, Russia is in danger of evolving into a criminal-syndicalist state—a troika comprised of gangsters, corrupt government bureaucrats, and certain crooked and sometimes prominent businessmen who continue to accumulate vast amounts of wealth by promoting and exploiting corruption and the vulnerabilities inherent in a society in transition. Expanding at a dizzying pace, ROC is a major force in shaping the post-Soviet political, economic, and social development of Russia. Virtually no sector of Russian society is immune from the effects of ROC.

- ❑ **Government:** Despite the turbulent electoral cycles of Russian politics, ROC has been a constant force in shaping Russian politics in two major ways. First, the inability of the Russian government to combat ROC groups effectively is leading to a crisis of confidence in the political institutions that presently govern the Russian state. Second, corrupt government leaders are themselves frequently integral components of ROC groups. Collectively, these developments weaken support for the democratic experiment in Russia.
- ❑ **Economy:** The market liberalization experiment in Russia has been undermined by the activities of ROC. Large quantities of Russia's natural resources are sold abroad by ROC groups, generating little return for the Russian public. ROC groups also deprive the state of much-needed tax revenue. Moreover, the violent and illicit extortion and intimidation tactics of ROC groups are a major deterrent to urgently needed foreign investment. Due in large part to the ROC phenomenon, foreign investment in China (\$176 billion) has outstripped that in Russia 20:1.⁵ These problems seriously jeopardize the privatization and liberalization of Russia's economy.
- ❑ **Banks:** Further complicating the economic experiment in Russia is the systematic corruption within the financial community. Major Aleksandr Gromov of the Russian tax police told a September 1994 conference of the Financial Crimes Enforcement Network (FINCEN) that "almost all Russian banks are corrupt."⁶ Banks are central components of ROC activity both as a primary target for extortion and as the main vehicle for extensive money laundering. These activities are initiated on a transnational basis as evidenced by the appearance of ROC activity in Cyprus, the Caribbean islands, and other offshore banking centers the world over.
- ❑ **Military:** ROC is both facilitating and exploiting the weakening of the military. By depriving the state of much-needed revenue, ROC groups have contributed to the poor readiness and morale of the military. The failure in Chechnya is attributable to this decline, as well as profiteering and diversion of supplies from the war for criminal purposes. Other illicit activities by ROC groups and their corrupt allies within the high ranks of the military, from illegal weapons transfers to base housing scams, similarly have compromised readiness and morale. Former Security Council chief Aleksandr Lebed has warned repeatedly of unrest in the military and of weapons being sold by those who guard them should the troops continue to go unpaid for months at a time. Ultimately, this unrest creates the possibility of disaffected Russian soldiers smuggling fissile materials to ROC groups.

5. "Russians Look Enviously at Investment in China," *Washington Times*, November 4, 1996, p. A20.

6. Cited in Christopher Whalen, "The G-3 Money Launderers," *International Economy*, May/June 1996, p. 54.

- ❑ **Power Ministries:** The powerful KGB apparatus of the Soviet era, although splintered, remains an important aspect of the ROC problem. Many KGB officers sold their contacts and tradecraft, introducing their mindset, to the private sector around the time of the collapse of the Soviet Union. Since that time, both active and inactive security and intelligence officials have cooperated extensively with ROC. The arcane skills and practices of the KGB are now at the service of ROC. Access to compromising information about political and business rivals, electronic eavesdropping and communications security techniques, domestic and international front companies, and networks of informants and spies, as well as knowledge of smuggling routes, represent only a few of the services that Russia's current and inactive corrupt security and intelligence officials can provide. ROC groups also rely on corrupt and coopted members of the MVD to protect their criminal enterprises by disrupting and diverting the investigations of honest Russian law enforcement officials.

Russian Organized Crime: Threats to the United States

Since the demise of the Soviet Union late in 1991, ROC has taken advantage of privatization and economic reform to enjoy exponential growth and acquire untold wealth and influence. The present economic, political, and social conditions in Russia and the rise of ROC cannot be viewed separately. Tremendous pressure is placed on Russia's fledgling democratic experiment by the volatile interplay between OC groups and an unregulated financial system, a stagnating industrial base, corrupt and unaccountable government officials, and a military that goes unpaid for months at a time. The impact of ROC on the future stability of democratic Russia is the key threat for the United States identified in this study. A second serious threat is the transnational activities of ROC groups, which involves the rapid—and difficult-to-counter—expansion of their illicit operations internationally. FBI director Louis Freeh summarized the gravity of these concerns when he stated bluntly that ROC “is the greatest long-term threat to the security of the United States.”

If left unchecked, the task force believes that ROC groups will ignite a lethal mix of social and economic turmoil in Russia. The persistent greed and opportunism of ROC could precipitate a political crisis that would destroy the reform process and prevent Russia from joining the community of liberal democratic nations. Former DCI R. James Woolsey has pointed out that ROC groups are already attaining sufficient power to spark such a crisis. Woolsey notes that “Russian criminal organizations not only threaten government authority, but are viewed...by its citizens as alternatives to state authority.” These developments reflect the erosion of the effectiveness of the Russian government in its battle against OC. It is vital to recognize and understand the role played by ROC in exacerbating the hardships of post-Soviet Russia. Such an understanding is an essential component of any policy intended to prevent the return of an authoritarian government in Russia, and is a

critical element in preserving the considerable gains for both the West and Russia brought about by the end of the Cold War.

In its effort to understand the problem of ROC, the task force operated under the following assumptions:

- ❑ The problem is not the ‘mafia’ as a separate entity; instead, it is the emergence of a situation in which separate OC groups are only one element of a larger phenomenon of the interpenetration of crime, business, and government.
- ❑ Europe and the United States have a vested interest in Russia’s becoming a productive partner in the world community, and, if possible, its transformation along the lines of a democratic system of government of an essentially Russian character but drawing upon Western experience wherever appropriate. The economic and human costs of the Cold War would be in vain if Russia failed to complete its political and economic reforms and reverted to authoritarianism.
- ❑ The Russian government is particularly vulnerable to exploitation by OC entities and corrupt bureaucrats because it presently functions in a transition in which civil law and civic tradition are struggling to take root after 74 years of communist rule. Moreover, the implementation of existing criminal law is likely to be disrupted because of the well-documented and pervasive corruption within the executive, legislative, and judicial branches of the Russian government.

Operating under these assumptions, the task force undertook an examination of two major threats arising from the ROC phenomenon. The first tactical or law enforcement threat involves the expansion of ROC into a transnational arena of operations. The second threat consists of two challenges to vital U.S. national security interests: the deleterious effect of ROC on the political stability of Russia and the risk of ROC groups acquiring nuclear, biological, or chemical (NBC) weapons and/or materials.

The Law Enforcement Dimension: The Domestic and Transnational Effects of Russian Organized Crime

ROC represents a profound challenge to law enforcement, both in Russia and the West. Russian crime groups engage in all types of illicit activity, including drug trafficking, extortion, large-scale auto theft, international prostitution and smuggling of aliens, bank fraud, tax fraud, stock fraud and manipulation, metals and minerals smuggling, illegal arms dealing, and contract murder. The reality that ROC groups pursue these illicit activities on a transnational basis has meant that law enforcement agencies in other states have been forced to recognize the severity of the problem. Of particular concern to Western policymakers is the rapid pace of transnational expansion by ROC.

One of the most pernicious aspects of ROC activity for law enforcement is financial criminal activity. ROC groups have acquired former state enterprises through privatization at pre-arranged “auctions” and at knock-down prices. They also have gained control over a significant number of major banks. With the funds thus generated, OC has bribed officials and legislators to obstruct unfavorable legislation or to gain preferential treatment in the regulatory morass that has marred Russia’s entrance into a free market economy. These activities upset the developing market economy in Russia by undermining the ability of legitimate business to operate.

For the West, the laundering of money earned from these illicit financial activities represents a serious challenge to law enforcement and financial regulators, and it also illustrates the manner in which most criminal activities undertaken by ROC groups have ramifications for the West. ROC is now expanding overseas into Central and Western Europe, the United States and Canada, Israel, South Africa, and Central and South America. Criminal elements in Russia are laundering money throughout the world and, with the proceeds, are buying into legitimate enterprises in scores of countries. An example of the threat posed to both Russian economic reform and the security and stability of the global banking system is the estimated \$1 billion illicitly transferred monthly from Russia to Cyprus.

As FBI director Freeh has pointed out, the United States is presented with a well-organized, well-funded, sophisticated, and often brutal criminal conspiracy. Russian criminal elements have engaged in extortion and sophisticated fraud schemes and have purchased, with laundered money, legitimate U.S. businesses and real estate. U.S. law enforcement thus faces a growing problem that requires a major commitment of resources to combat—all of which, in the end, is paid by the American taxpayer.

The National Security Dimension: Eroding Russian Democracy and Illicit Procurement of Nuclear Materials

The growth and spread of ROC is important for the United States not only because of the associated law enforcement problems, but also because of the threats emerging from the risk of illicit procurement of NBC materials and the detrimental effect of OC on democratic reform in Russia. The potential criminal diversion and trafficking of nuclear materials must be viewed as a direct challenge to U.S. national security. This issue was discussed at length in the CSIS Global Organized Crime Task Force Report on the Nuclear Black Market (June 1996); but the role of ROC groups in providing a potential conduit for nuclear materials is well worth noting again—especially in light of emerging concern on the part of former minister of defense Rodionov and former security chief Lebed in winter 1997 about unrest in the military. The unrest is linked with the failure of Russia’s government to provide even a semi-regular payment of wages to the armed forces. A further deterioration in the military only could increase the already serious risk of a poorly paid, isolated, and angry Russian soldier agreeing to sell NBC materials to a ROC group.

In February 1997, Mr. Rodionov warned, "Russia might soon reach...the threshold beyond which its rockets and nuclear systems cannot be controlled.... The whole horror is in the fact that, as Russian Defense Minister, I am becoming a spectator in the destruction of the Army and can do nothing about it." In May 1997, after making similarly candid remarks, Rodionov was dismissed by President Yeltsin. For the United States, the prospect of ROC groups trafficking NBC materials to terrorist organizations has caused sufficient concern to generate legislation to address the problem, which was sponsored by Senators Sam Nunn (D-Ga.), Richard Lugar (R-Ind.), and Pete Domenici (R-N.M.), passed the Senate 99-0, and was signed into law by President Clinton.

The other strategic threat from ROC is the long-term erosion of stable government in Russia. Democratic reform in Russia, despite its erratic progress at times, is essential to preserving and enhancing the gains to East-West relations brought about by the end of the Cold War. ROC, by corrupting the nascent reformist political and economic experiment in Russia, has the potential to jeopardize the support of the Russian people not only for Western ideas, but for the West itself.

In recurrent polls in the early- to mid-1990s, Russians have expressed their serious concerns over the inroads made by criminal groups in their country. This concern is part of the overall disillusionment ordinary Russians feel regarding the economic and other reforms being instituted throughout their country. It is a disillusionment born of hardship, for many of the Russian people have reaped no material benefits from political and economic restructuring. Instead, they have seen their standards of living erode, the purchasing power of the ruble diminish, state institutions unravel, jobs disappear, and wages or pensions go unpaid. These reverses have been especially onerous because the privations of ordinary citizens stand in contrast to the opulent lifestyles of gangsters, corrupt politicians, and entrepreneurs of questionable integrity. This deviation has promoted the impression of a state hopelessly corrupt, out of control, and run by criminals who continue to use illicit means to hold onto the privileges of the elite formerly reserved for officials of the Communist Party.

The perception of a state in chaos has fueled, in turn, the yearning of many Russians—especially the older generation—for a return to the authoritarian and paternalistic forms of governance most familiar to them, which at least kept order, delivered some of the necessities of life, and brought their country international respect. This desire, based on a widespread disillusionment with democracy, attributable in large part (although not exclusively) to the surge of OC, may yet impel the Russian people to surrender their new political freedom and opt for a return to the familiar authoritarian institutions of the past.

Such a conclusion is by no means far-fetched, despite the repudiation of the Communist Party in the presidential election of June 1996. Evidence of the Russians' disillusionment with democratic and free market reforms first crashed into Western consciousness in December 1993 with the rise of Vladimir Zhirinovskiy and was reinforced two years later with the renaissance of the Communist Party. Even though the Communist Party fell far short of a majority, it was the leading recipient of votes and went from holding 45 seats in the outgoing State Duma to 157 of 450 seats in the new State Duma. Adding to the weight of this evidence was

the election in January 1996 of the Communist Party deputy Gennadi Seleznyov as Speaker of the State Duma, as well as that body's vote in March 1996 to denounce the collapse of the Soviet Union and call for its restoration and the strong candidacy of the Communist Party's presidential nominee, Gennadi Zyuganov.

In addition, nationalist movements have joined with the Communist Party in a "Popular Patriotic Union," including an "anti-West" movement that blames the collapse of the former Soviet Union on the CIA. Communists and nationalists continue to enjoy strong support, particularly outside Moscow and other major cities. In regional elections on March 24, 1997, Communist Party candidates scored victories in regional governorship races in Tula, south of Moscow, and in Amur, bordering China. Nationalist Dmitri Rogozin won a State Duma seat running in the southern region of Voronezh. Nationwide strikes in March 1997 over unpaid wages brought 1.8 million workers to the streets in what is the largest anti-Yeltsin demonstration to date.

Continuing uncertainty about economic liberalization was apparent in the initial polling, quoted in the *Washington Post* after the June 16, 1996, election. The issues most important to the electorate were (in order of priority): government payment of pensions and salaries; the economy; ending the war in Chechnya; and controlling crime. The polls also showed that many people (46 percent) believe they were better off under communism (before perestroika) than they are now. These exit polls also showed the desire for a different type of government that is neither communist nor democratic. Russia, in this election, faced a stark choice between reform and paternalism. It is unclear that Yeltsin's victory was an endorsement of reform, or even a repudiation of paternalism. The rejection of communism and the strong showing of General Lebed stand as evidence of support for a third way of government.

The popularity of General Lebed, and his subsequent rise and fall as the top national security official in the new Yeltsin government, is an important development in the struggle against ROC. The ouster of the "party of war" faction of the Yeltsin inner circle, and its replacement by the resolutely nationalist Lebed, with his proposals for initiating an anticorruption campaign, could have cleared the way for a much more aggressive crackdown on ROC. But some observers see Lebed's dismissal and the ascendancy of Boris Berezovsky, the former director of the LogoVaz industrial empire, as deputy chief of the National Security Council, as further evidence of the entrenchment of OC.

During President Yeltsin's long illness in 1996, there was concern that his possible incapacitation would require a new election (as called for under the present Constitution), and that the balloting would have been bought and paid for by OC groups. Several sources have told members of the Russian Organized Crime Task Force that the summer 1996 election cost the Russian government nearly \$2 billion, nearly emptying government coffers. The government could not have funded another election so quickly without help from abroad or at home. The only organizations in Russia that have millions of dollars available to fund snap elections are large Russian banks, oil and gas companies like Lukoil and Gazprom, and the various well-heeled Russian criminal organizations. Government reliance on these resources to finance a national election doubtless would have played into the hands

of the criminals. It just as clearly would have discredited the democratic electoral process in the eyes of the average Russian voter.

The task force is of the opinion that, if Russia cannot get a grip on OC, democracy will be discredited even further, and the winners will be the antireform forces of the Communist Party or the nationalists, now joined together under the banner of the Popular Patriotic Union. Many Russians and Americans share the concern that a resurgent communist regime in Russia might bring back some mutated form of the Cold War. In turn, for many Russians, there is concern that a reinvigorated communist regime might mean a curtailment of the liberal reforms and a return to the inefficient economy and political repression of the Soviet era.

For these reasons, OC and its inhibiting effect on the progress of Russia's political and economic reform process and on the freedom of the press is a matter of great concern. The task force believes that the growth of OC in Russia is a direct threat to both Russia and the West, and must be addressed more directly and comprehensively than current efforts in both countries now are doing. The primary aim of the task force has been to assess the threat that transnational Russian criminal elements have on the United States and secondarily on Russia. In doing so, the task force wishes to add its voice to those in both countries who see the pressing imperative for pursuing legal, judicial, and law enforcement reforms that would launch a forthright and credible assault on OC in Russia. These scenarios, with all the geopolitical upheaval they entail, illustrate the need to view ROC as more than a challenge for U.S. law enforcement and nothing less than an explicit national security threat to the United States.

What Is Russian Organized Crime?

Defining Russian Organized Crime

Defining terms to the satisfaction of all involved parties is often challenging. This is one of the many elements contributing to the confusion surrounding the issues related to Russian organized crime. To date, there is no internationally recognized definition for this term. The definitional problem is compounded by differences in mindset, culture, policy, and language among various groups addressing this issue, and occasional miscommunications resulting from these differences.

The Russian Organized Crime Task Force found that the two main law enforcement bodies involved, Russia's MVD and the U.S. FBI, have substantially different definitions of what constitutes a criminal group and a criminal act. This means that statistics kept separately in the United States and Russia are virtually irreconcilable and are therefore of limited utility. More fundamentally, the questionable reliability of Russian statistics makes it difficult to do any of the following with confidence: identify trends, determine progress, and isolate areas in which threats are most acute and help is most needed.

The problem of definition is an important factor contributing to the inability of international law enforcement bodies to identify the size and scope of ROC accurately. This problem is exacerbated by the perception, shared by the task force, that certain statistical accounts of ROC activities and groups in Russia are incomplete. As with any statistical reference, numbers can be manipulated with ease to serve political objectives. In Russia, it is not unheard of for politicians with ties to ROC to label their opponents publicly as members of "organized crime" in order to discredit them. The Russian press is replete with charges and counter-charges (usually without strong documentation) that someone is connected with "organized crime."

For the purpose of fulfilling the mandate of the Russian Organized Crime Task Force, the group used both FBI and MVD definitions as guidelines. Furthermore, the task force determined that it would not be bound by the working definitions of either agency, and that it would consider all relevant information.

The U.S. definition, as put forth by the FBI, is as follows:

Organized Crime is a self-perpetuating, structured and disciplined association of individuals or groups, combined together for the purpose of obtaining monetary or commercial gains or profits, wholly or in part by illegal means, while protecting their activities through a pattern of graft and corruption.⁷

Russian law enforcement authorities

define organized crime as an organized community of criminals ranging in size from 50 to 1,000 persons, which is engaged in systematic criminal business and protects itself from the law with the help of corruption.⁸

The Size and Scope of Russian Organized Crime

The Russian definition of ROC, as provided above, is much broader than the one utilized by the FBI. The Russian category includes organizations that have two or more levels of hierarchy across regions and criminal specialties. The ability to influence or corrupt government officials is also one of the criteria for classifying a group as part of OC. One important difference between the Russian and U.S. definitions of OC is that, although the U.S. definition views corruption of government bureaucrats as a tactic of the ROC criminal, in Russia it is not uncommon for government bureaucrats themselves to be engaged in OC activities. In addition, the Russians also classify groups according to ethnicity, areas of operations, and type of leadership. These categories, in turn, provide additional defining characteristics of OC groups. This type of definitional problem inhibits cooperation between the Russian and U.S. governments.

Based on its own definition of what constitutes an OC group, the FBI has estimated that there are approximately 200 to 300 groups active in Russia, and that the number of ROC groups active in the United States had doubled in 1995 to 52.⁹

7. The FBI definition further identifies the following characteristics as being typically associated with organized crime groups:

- their illegal activities are conspiratorial;
- they commit or threaten to commit acts of violence or intimidation;
- their activities are methodical, systematic, or disciplined or secret;
- they insulate their leadership from direct involvement in illegal activities through an intricate bureaucracy;
- they attempt to influence government, politics, and commerce through corruption, graft, and legitimate means; and
- their primary goal is economic gain, not only from patently illegal enterprises, such as extortion, drugs, gambling, and loan sharking, but also from such activities as laundering illegal money through and investment in legitimate businesses.

8. Testimony of Colonel General Mikhail Yegorov, then Russia's minister of internal affairs and director of the Organized Crime Control Department, before the Senate Permanent Subcommittee on Investigations, May 26, 1994. Further to the Russian definition: "Responsible officials of the Directorate for the Fight Against Organized Crime of the Russian Ministry of Internal Affairs define organized criminal groups as having the following characteristics: They engage in criminal activity with the aim of obtaining a fixed income; they have the capability of acting over prolonged periods of time; they have a clear-cut division of labor; they have information on group activity and well developed means of internal communications; they have access to group resources, and available system of secrecy and security." "Christopher Statements Following Talks with Kozyrev Noted," *Segodnya* (Moscow), January 20, 1995.

9. According to information obtained at the May 15, 1996, hearings held by the U.S. Senate Governmental Affairs Committee, Permanent Subcommittee on Investigations.

According to Russian statistics, 785 OC groups had been identified in Russia in 1990.¹⁰ This number had risen to 5,691 by 1994 and 8,000 in 1996. At approximately the same time, the MVD estimated that there were approximately 100,000 full-time members of OC groups. The United Nations, in its 1994 World Ministerial Conference on Organized Transnational Crime, placed total membership in ROC at a staggering 3 million individuals, comprising some 5,700 gangs.¹¹

With respect to transnational ROC activity, MVD statistics state that there are approximately 3,000 professional criminals and at least 300 ROC groups operating internationally. In economic terms, the MVD reports that approximately 40,000 Russian business and industrial enterprises are controlled by OC. It also estimates that 40 percent of private business, 50 percent of Russian banks, and 60 percent of state-owned companies are controlled by OC. A 1996 scientific conference in Russia estimated that the relative share of the shadow economy in Russia's entire GDP has reached 40 percent. Using other yardsticks, ROC experts say that two-thirds of the economy is under the sway of crime syndicates.

In Moscow alone (again according to the MVD), there were 189 active criminal organizations, of which 23 had international ties. In Russia proper, the MVD estimated the number of crime families at approximately 3,500. Of the 189 active, internationally operating criminal organizations, 151 were believed to be engaged in violent crime. The MVD also observed that a tendency has appeared recently in which alliances are formed between Moscow groups and those in other regions, resulting in an increased trade in drugs and arms in the Moscow Oblast. Furthermore, the MVD stated that, in an effort to launder illegal profits, OC has formed or purchased its own law firms, banks, and other revenue-producing properties. In early 1996, according to the MVD, OC controlled 860 firms and 40 joint ventures in Moscow alone.

These two sets of statistics underscore the difficulty of reconciling the U.S. and Russian data. The task force is conscious of opposing positions regarding the dangers of "threat inflation." It has sought to present a fact-based representation of the situation upon which logical, objective, and practical policy recommendations could be based for counterattacks by the United States and Russia. It has been presented with the alarming statistics of the MVD on the one hand and the relatively benign statistics compiled by the U.S. business experience in Russia on the other. This point seems to be underscored by a June 1995 report by the American Chamber of Commerce, prepared for the fifth meeting of the U.S.–Russian Commission on Economic and Technological Cooperation, which found that only 19 (American) businesses out of 119 reporting had been approached by gangsters wanting protection money. Independent discussions with American businessmen, however, indicate that many companies will not report their dealings for fear of retaliation, to maintain consumer confidence in their business, or because of just plain apathy.

In 1994, President Yeltsin's own Kremlin analytical service released a report based on research done across Russia. It found that OC organizations were

10. Testimony of Colonel General Mikhail Yegorov, May 26, 1994.

11. "The World Ministerial Conference on Organized Transnational Crime," *United Nations Crime Prevention and Criminal Justice Newsletter* No. 26/27, November 1995, p. 27.

The Russian Federation as a Criminal-Syndicalist State

The notion of a criminal-syndicalist state is central and essential to understanding the findings and conclusions of the Russian Organized Crime Task Force. The task force concludes that, in the absence of significant reforms, the Russian Federation itself is likely to become a full-blown criminal-syndicalist state. In many respects, such a criminal-syndicalist state already exists in Russia today. In the findings of the task force, such a state is composed of, and characterized by, interactions among the following:

- i. corrupt officials at all levels throughout the government bureaucracy, from minister to tax collector to low-level factotum;
- ii. successful, full-time “professional” criminals; and
- iii. businessmen for whom existing Russian law—and Western norms of commerce—are simply obstacles to be overcome in one way or another.

Even at the lowest level of activity, this dangerous mix of criminality, government, and business—with a strong, shared interest in self-enrichment, survival, and power—precludes normal interaction with those outside it. The most important, and perhaps the most significant and troubling finding of the task force, is that, at the level of state-to-state interaction, it will become impossible for the United States and other states to have traditional satisfactory dealings with an emergent Russian criminal-syndicalist state. As corrupt bureaucracy, organized crime, and “commerce without rules” in Russia blur into one another, how will it be possible for others to conduct normal dealings in matters of diplomacy, military affairs, economic and commercial activities, intelligence and security, and even law enforcement? Under such circumstances, how will the United States government determine whether the Russian government is dealing in what is traditionally regarded as its “national interest” rather than in the interests of individual self-enrichment, survival, and power that are shared by those with whom the United States normally negotiates? How can the United States or other countries hope to build enduring relationships in matters of international cooperation, economics, and security with representatives of a criminal-syndicalist state?

receiving protection payments from nearly 80 percent of privatized enterprises and commercial banks and from virtually all small entrepreneurs. For the purposes of this study, the MVD statistics will be assumed to be sufficiently useful, and generally reliable, to illustrate overall trends in ROC.

The Evolution of Russian Organized Crime

Russia, especially in its larger metropolitan areas, always has had “big city” crime problems. In the Soviet period, however, crime was hidden and repressed by a totalitarian regime. Beginning in the mid-1980s, criminal activity became more visible with the arrival of perestroika and its associated political, social, and economic reform. In this period of stress, criminal activity flourished and became one of the easiest ways for a broad range of people to obtain money quickly. These circumstances only were exacerbated by the diminished standards of living that came

with the wholesale economic changes in post–Cold War Russia.

The changes brought on by the end of the Cold War have given birth to the “new Russians,” entrepreneurs who have flourished in the reform atmosphere. The line between many so-called businessmen and the criminal world has become blurred, however, because many of the former purchase the services of the criminal gangs, make alliances with them, and even hire contract killers to eliminate competitors or other perceived threats.

The lingering Soviet mindset among many Russians has allowed ROC to exist and flourish. Many Russians do not view certain practices generally considered illegal in the West (such as stealing from one’s place of employment) as crimes. Evidence of this mindset is found in the booming black market for counterfeit compact disks of music and software as well as VHS movie cassettes. According to one Russian observer of this illicit market, “Russians are not accustomed to paying for intellect. Most Russians do not think of software theft as a disreputable act.”¹² In addition, many Russians take the attitude that “rules (or laws) are made to be broken”; consequently, there is little moral incentive to live within or under the law. Of course, the situation is magnified by the fact that there is an inadequate legal foundation for commerce.

Loci of Criminality

Modern organized crime in Russia grew out of four centers of criminality. One is the historical Russian criminal elite, the *Vory v zakone* (or “thieves-in-law”), composed of common criminals. It pre-dates the Soviet era and developed further in the Soviet-era gulag (now referred to as the “zone”) prison system in which survival depended on forming alliances with other criminals. These gangs developed a code of conduct and a well organized structure. The basic requirements of the *vory* were that they could not (1) have a legitimate job; (2) cooperate with law enforcement; (3) give testimony in court; (4) have a family; and (5) serve in the military. Because these criminals spent most of their lives in the penal system and were well-organized, the authorities came to rely on them to run the camps in exchange for preferential treatment. In more recent times, there has been an observable disregard for the “thieves law,” and the *vory* no longer has to be a convict with a criminal record. In turn, respect for the *vory* also has diminished.

A second center consists of certain corrupt Communist Party members, government officials, and business figures who comprised the Soviet power elite (or *nomenklatura*). Bribes, payoffs, and an “underground” barter economy were common to the way in which the Soviet Union was ruled and were necessary for its survival. This “gray” or illegal economy (what the Russians term *shadow-tyenova*) was the vehicle that made the Soviet system even marginally workable. Soviet government and Communist Party elites participated in this charade—thus laying the groundwork for the phenomena of all-pervasive corruption and criminality. In post-Soviet Russia, many of these same people remain in place and have continued to perpetuate this system. Corruption among the former Soviet elites within both

12. Aleksandr Kondratyev, “The Pirates Will Fight for their Survival” *Komersant-Daily* (Moscow), September 12, 1996, p. 10. FBIS–SOV–96–191–S.

the present government and the private sector is a serious obstacle to combating ROC. Bribes and payoffs at the elite level in the courts, security ministries, the military, and even among senior government advisers compromise legitimate government actions against Russian criminal networks. It also undermines cooperative efforts between Russia and the United States to combat what is increasingly a transnational problem.

Various ethnic and national groups form a third center of OC. The most influential of these are the Chechens, followed by the Armenians, Azerbaijanis, Dagestanis, Georgians, and Ingush. These groups are active not only in Russia but throughout Central Eurasia and outside the Commonwealth of Independent States (CIS). Generally, they are among the most violent of all criminal groups. It is important to point out, however, that most criminal groups in Russia are not ethnically based, as is common in the United States, but can span many ethnic groups. According to a scientific conference on organized crime held in Russia in June 1996, only 70 of 3,000 individual crime groups in Russia are categorized as ethnically based.

The last and largest center is composed of criminal associations based on control of a particular geographical sector, a specific criminal activity, shared experiences, membership in certain athletic sports clubs, or a particular leader. These groups operate like OC entities, but many also fit the U.S. definitions of a gang. Some of these gangs are referred to as the *avtoriteti*, or “authorities.”

All four types of groups currently exist, operate, and compete throughout Russia and the other countries of the CIS. Failing to recognize that they are all active at the same time, and that they operate differently and independently, is part of the problem law enforcement experiences when dealing with the groups. Unlike OC groups in the United States, the diversity of Russian criminal groups hinders any single comprehensive approach to the problem(s) they present.

The Russian Organized Crime Task Force found that the U.S. government has been too slow in learning about the extent of ROC and the threat it poses. The following statement, excerpted from the Staff Statement to the Senate Permanent Subcommittee on Investigations hearings on the Global Proliferation of Weapons of Mass Destruction on March 22, 1995, effectively states the reason:

The result [of U.S. law enforcement efforts at addressing ROC] appears to be a fragmented approach that fails to convey a firm understanding of the organized crime problem in that region.... [The U.S.] government has been treating “organized crime” in Russia as analogous to the US experience with the Mafia or La Cosa Nostra (LCN) and mainly as a law enforcement issue. As a result, our programs have focused mainly on assistance to law enforcement agencies in the former Soviet Union for combating groups that appear similar to those found in our own country—gangs such as ethnic or prison-based gangs such as the *Vory v Zakone* (thieves-in-law), a group that has been popular with U.S. law enforcement agencies.

Thus, it appears that the U.S. government does not understand fully the unique and multifaceted characteristics of the threat of ROC. Recognition of the tendency of Americans to mirror-image is important to improving the effectiveness of law

enforcement activity against the ROC threat.

Continued countering of the ROC threat with tactics used against the LCN also will result in the failure of the U.S. government to recognize the more insidious national security aspects of the problem: the potential criminal syndicalization of the nuclear-armed Russian state.¹³

Krysha

One of the most prominent terms of the new Russian criminal jargon is *krysha*, which literally means “roof.” Throughout the Cold War, Soviet intelligence services used this term to refer to a cover set up for intelligence officers in a foreign country. In the context of ROC, however, *krysha* is now used to refer to an umbrella of protection, or “bandit roof.” This protection can come in the form of a criminal overlord protecting members of his organization. It also can come in the form of a criminal group’s declaring that a specific business is paying it extortion money and is therefore under its protection. Finally, a *krysha* also can include certain forms of corrupt government protection, including the *militsiya*, tax police, the military, customs, and border guards.

Why has ROC prospered? The lawless criminal climate in Russia today makes it very difficult for business to survive and prosper without being defended and kept safe by some kind of organized security force. This type of force may come from public sector law enforcement agencies or private-sector guard services as well as an organized crime body. In many cases, the business will have to pay from 10 to 60 percent of its pre-tax income for protection regardless of who provides it. These costs to business contribute to the shortfall in tax revenue received by the official government; corrupt officials within the government, however, also divert tax receipts for their own illicit purposes, whether as individuals or as part of criminal organizations. If the criminals find a business particularly attractive, they will demand an ownership share of it.

When a business comes “under the roof” of a ROC group, it is not always viewed as a clear case of extortion. Often, the *krysha* offers a range of services. The business can expect to be defended from other racketeers, including corrupt law enforcement; effective technical and guard protection of property; debt collection; assistance with customs clearances; legal and business advice from an adroit “legal staff”; and banking privileges at criminal-controlled banks. Banks are the linchpin of the criminal system: not only is the money kept in banks, but criminals use them to control their clients. Bank accounts, letters of credit, and wire transfers sometimes are the best sources for discovery of new, moneyed clients.

According to recent financial and business reporting from the American embassy that has been shared with the U.S. business community through the BISNIS online service, the *krysha* model is a key component of a significant post-communist development in Russia—the integration of the criminal and legal economies. In the days of the Soviet Union, everyone understood and made use of the

13. The task force notes that a number of congressional committees have held hearings recently on various aspects of ROC. The task force applauds these committees for their efforts to advocate about this particular issue in front of Congress.

***Kryshas*: Key Actors in Legitimate and Illegitimate Russian Business**

A *krysha* is a virtual necessity in most organized ventures in which sales, income, and profit are generated. They are a logical outgrowth of the old communist system, which orchestrated a system of unworkable socialism, confiscation, and perpetual shortages. Access to scarce goods could be acquired only through a structured mechanism of corruption. As the Communist Party's institutions of power collapsed in 1991, the *krysha* naturally surfaced to fill the organizational void; one variant of corrupt patronage, confiscation, and dispensation merely supplanted another. A *krysha* generally includes one or more of the following three elements:

- a connection to a financial/credit center or bank;
- a deep penetration into governmental structures (local, republic, or national);
- an armed force, often illegal, sometimes from within the government itself.

Operationally, a *krysha* is an organization or individual that can provide the protection and patronage necessary to the conduct of business (or government activity). Membership in the *krysha* carries a price; a share of profits and/or some payback of service or favor is owed by the member corporation or individual to the *krysha*. In return for payment, individuals and corporations receive service in return from the *krysha*: ensured personal security, defense from attack and shakedown from another *krysha*, handling of payoffs and deals, intimidation of real or potential enemies and competitors, and advancement of the interests of the recipient for the established price. A *krysha* mistakenly is thought of as only criminal, that is, a mafia group that intimidates, beats, or murders, but it also can be governmental, able to deploy force from the power ministries for many of the same ends as a criminal *krysha*. A *krysha* can manipulate both the law and the bureaucracy in a business's favor—or against it. The Office of the Prosecutor General frequently institutes legal proceedings on the strength of a single telephone call. The new *nomenklatura* wins 9 out of 10 cases it initiates against the Russian media.

According to the MVD and the *militsiya*, as cited in *Moskovskaya pravda*, 30 percent of all militia operational officers maintain "roofs." The commercial structures they protect vary according to rank—precinct officers "maintain" vendors' stalls, while operations officers protect limited-liability companies and joint-stock companies and their superiors even oversee banking structures. Before being fired by President Yeltsin in June 1996, General Aleksandr Korzhakov, (now a member of the State Duma) headed the Presidential Security Service and was said by many in Russia to direct one of the biggest *kryshas* in Russia. *Kryshas* are found not just in the major cities, but throughout the Russian Federation and in the former Soviet republics, including the Baltic states. The comments of one Moscow crime boss illustrate the pervasiveness of the *krysha* in Russian business today: "It's gotten impossible to work: one place the cops are providing roofs; somewhere else it's the KGB, and yet another place it's Korzhakov's boys or the Alfa group. Who can make any sense of it any more?"

Considering the depth and breadth of its presence, the *krysha* is likely to become a fixed feature of the post-communist Russian scene, and indeed, very well could mature into integrated and local elements of the Russian state, Russian society, and Russian business and industry. Some observers believe this is happening already.

“parallel market,” the euphemism for black market, that supplied what the state-controlled economy could not. Today, the world of criminal enterprises exists side by side—and sometimes overlaps—a legitimate Russian business.

Financial–Industrial Groups

Financial–industrial groups (FIGs) have become a popular topic in the press as well as in statements by Russian political figures, and they are the focal point of many reports from the American embassy. FIG cartels, according to the embassy, are allegedly modeled on either the Japan’s *keiretsu* and its counterpart from Korea, the *chaebol*, or on continental Europe’s quasi-governmental “national champion” conglomerates. FIGs have been recognized in Russia as a legal means of conducting business and helping the Russian economy since 1993.¹⁴

FIGs can be categorized into de jure groups and unofficial de facto groups. According to the Russian State Industrial Committee (Roskomprom), Russia has 27 de jure FIGs, accounting for over 2 million employees. Roskomprom reports that these 27 FIGs have 446 member companies, (including 65 financial institutions) and had a projected total revenue of \$10 billion in 1995. Over 100 additional FIGs have applied for registration. In contrast, de facto FIGs, broadly defined, can be counted in the thousands. The majority of such de facto FIGs, however, represents only a small or medium-sized industrial concern and its in-house bank. Although numerous, these groups are of secondary concern to the largest Russian FIGs, which involve interaction between very large banks and very large industrial enterprises.

FIGs are highly likely to play an important role in Russia’s future. In a more pessimistic appraisal, however, Russian reform economist Andrey Illarionov, although agreeing on the importance of FIGs, also has noted that they concentrate wealth in a few hands, hamper efforts to build a more open and transparent economy, and probably will destroy what remains of the still lucrative Russian natural resource sector. Illarionov has predicted that, by the year 2000, one or two dozen gigantic FIGs and a handful of state-created “parastate cartels” will dominate Russia’s economy.¹⁵

Many of these groups have fed the new criminal world that exists in contemporary Russia. The privatization and legitimization of FIGs have given OC the unique opportunity to buy into the system. The lack of adequate commercial laws and ineffective judicial and law enforcement structures allow illegal financial and real estate transactions to flourish. Such crimes as extortion and kidnapping coexist in the same atmosphere and substitute for civil remedies. In turn, criminals feed the system and perpetuate it. According to one source, criminals use 25 percent to 30 percent of their profits to bribe state officials. The political power of these large groups is troubling to many observers. Pavel Gusev, editor in chief of *Moskovskii*

14. Russian Presidential Decree No. 2096 of December 1993; see also State Duma and Federation Council acts that President Yeltsin signed into law in December 1995: “Law on Financial-Industrial Groups.”

15. Andrey Illarionov, “Russia on the Boundary of the Centuries,” *Komersant-Daily* (Moscow), December 27, 1995, p. 2.

Komsomolets, one of Russia's last independent media voices, says that most of the financial groups that have acquired control of the federation's principal publications are engaged in criminal activities.

Most businessmen would like to operate legally. But "under the conditions of illegality" they are forced to turn to bandit "covers" and "arbitrage" for the successful management of their activities. In this way, they themselves are building up the superstructure of the shadow economy—organized crime. In turn, as bandit groups gain financial power and bribe officials of state apparatus and law enforcement agencies, they dominate everything of new entrepreneurs, including those who obey the law. In this way, the circle closes.

—*Argumenty i fakty*,
July 1996

Crime in Russia's Military

Paralleling the development of Russian criminality in other sectors of society, institutionalized military crime is growing and flourishing in Russia amid the wreckage of the old Soviet military establishment. Parts of the current Russian military are characterized by informed Russian sources as a mosaic of corrupt generals, drug and arms trafficking, illegal diversions of huge financial and material resources, widespread criminal abuses by Russian peacekeeping and combat forces, and other forms of military crime that have spread well beyond Russian and regional borders.

Russian authorities have associated military crime and corruption directly with Russia's Ministry of Defense; General Staff and other senior staffs; transportation, construction, and logistic organizations; technically oriented strategic strike and air defense formations; military research organizations; and military-educational components. The MVD's 1996 annual report states that "28 generals and almost 100 senior officers are under investigation" in the Ministry of Defense alone.¹⁶ In at least one instance, military criminals in Russia have been associated directly with the theft of fissile materials and appear to have played roles in the diversion of military chemical stockpiles. There has been wholesale diversion of Russian military weaponry, below the level of weapons of mass destruction, to Western and other sources, generating huge profits for corrupt Russian military officers. Military criminals range from generals and field grade officers to the newest conscripts.

OC groups within the military work both independently of, and in partnership with, outside civil sector criminals at home and abroad. According to reliable Russian sources, analogous problems are present in those Russian law enforcement and security bodies that are intended to support internal order and combat crime (including certain parts of the former KGB).

16. "MVD Report: Latest Data on the Performance of Internal Affairs Agencies and Internal Troops in 1996," *Rossiyskiye vesti* (Moscow), February 20, 1997, pp. i–iv.

Corruption and Russia's Military

Corruption within Russia's military is a direct threat to U.S. national security interests. Several recent cases illustrate the widespread and dangerous relationship between corruption in Russia's military and ongoing crises in Russia's "near abroad."

Upon taking office in July 1996, Russia's then-national security chief Aleksandr Lebed accused Pavel Grachev, the deposed minister of defense, of benefiting from the corrupt practices of his generals. According to military analyst Graham Turbiville, these corrupt practices allegedly included profiting from ammunition sales to Bulgaria and allowing payments to a Russian construction company for a bogus deal to build apartments for Russia's military. The consequences of corruption and weak leadership for Russia's military have been profound, disrupting morale and undermining the professionalism of the armed forces. In Chechnya, the weakness of the command structure was manifested in profiteering and smuggling among officers and enlisted men, who sold a variety of weapons and materiel to the Chechens. According to the August 25, 1996, edition of the *Sunday Times* (London), General Lebed and others accused the "party of war" or the "third force" of now deposed Yeltsin confidante and then-chief of presidential security, Alexander Korzhakov, FSB chief Mikhail Barsukov, and ex-first deputy minister Oleg Soskovets of promoting the conflict to preserve their role in overseeing and gaining illicitly from sales of weapons, medicine, and other supplies to Russia's military.

The pattern of corruption has had several effects on Russia's military. It undoubtedly has played a role in the inability of Russian armed forces to conduct their campaign in Chechnya successfully. One of the more subtle and disturbing effects of the corruption has been the move by many of Russia's best and brightest military officers into the ranks of OC. With their high-level security training and knowledge of advanced military tactics and weapon systems, Russian military officers are in demand to organize and lead the private security forces of the Russian mafia. Private security forces are required by legitimate businesses, who also turn to the military for recruits. Former *spetsnaz* (special forces) are in particular demand. U.S. security officials view these developments with concern, noting the possibility of former military officials' using their contacts and expertise to acquire nuclear materials illicitly.

In May 1997, frustration over ongoing corruption in Russia's military led to President Yeltsin's dismissal of Minister of Defense Igor Rodionov and Chief of the General Staff Viktor Samsonov. Yeltsin also fired one of his most loyal supporters, General Konstantin Kobets, who subsequently was charged with corruption.

All these developments highlight military and security service criminality as special categories of ROC that parallel, compete with, and interact with other ROC hierarchies and are even more difficult to combat because traditional Russian concerns about secrecy thwart investigators from domestic and especially from Western law enforcement agencies. Although a shrinking cadre of Russian military professionals and democratic reformers seeks to build a cohesive military institution within this environment, its efforts are undermined by systemic corruption and criminality that is especially evident at the higher levels of the military and civilian leadership. As a consequence, efforts in Russia's legislature and internal armed forces aimed at reforming threatened military and security institutions seem to

have little chance of success unless they have the total backing of the presidential administration and the legislature. As minister of defense, Rodionov in February 1996 described the armed forces as being in a ‘horrifying state of decay.’”

This largely unbridled criminality in Russia’s military establishment—together with a host of fiscal, restructuring, and social problems—continues to erode the military’s cohesiveness, reliability, and combat effectiveness. Systemic Russian military crime raises troubling questions about the resolve and ability of the armed forces to support sustained democratic reforms within the country and to serve as a reliable international partner in security agreements, programs, and joint activities, such as peacekeeping operations. Most troubling is the possibility of ROC groups exploiting misery within Russia’s military, offering what could be irresistible bribes to isolated, unpaid, and embittered guardians of Russia’s nuclear arsenal. The CIA describes Russia’s controls over tactical nuclear arms as ‘poor,’ but the security and safeguards of fissile materials that could be used to construct a ‘dirty’ radiological device are even poorer. The Global Organized Crime Project’s report on the Nuclear Black Market confirms these conditions, noting that ‘only a few materials sites have relatively good physical security with appropriate detection, assessment, monitoring, and response capabilities.’¹⁷ For these reasons, crime in Russia’s armed forces constitutes not only a fundamental threat to democratization, economic development, and stability throughout the region, but a direct threat to U.S. national security as well.

The Russian State and Russian Organized Crime

Russian society is undergoing transformation. The extralegal tradition of the Communist Party and its *apparatchiks* and the hidden economy of Soviet times have given birth to a business *nomenklatura* that is buttressed by corrupt Soviet bureaucrats and career criminals.

The interplay between OC and government officials, through which there is mutual personal enrichment, is nothing short of subversion of the Russian state itself. Although corruption is more pervasive in some industries than in others (especially prevalent in the areas of oil, natural gas, metals, minerals, and other natural resources), there hardly is a sector of government that is completely immune to corruption. Some officials will sign whatever licenses, permits, regulations, or pieces of paper are placed in front of them for the right price. The extent of corruption in the Russian government is set forth by the director of the FSB (Russia’s counterintelligence/domestic security agency), Nikolay Kovalev, who admitted in December 1996 that

At the moment we are investigating about 500 staffers of organs of power and administration. They include more than 50 representatives of the leadership level of the state apparatus, including [the] federal level, several senior officials of the prosecutor’s office, the health ministry, the MVES, the federal Tax

17. See Sarah Mullen and Linnea P. Raine, *The Nuclear Black Market* (Washington, D.C.: Center for Strategic and International Studies, 1996), p. 11.

Police Service, the Customs Committee, and the State Tax Service.¹⁸

Many government officials, with relatively low salaries, have become owners of automobiles, vacation retreats, or homes abroad that are worth much more than their wages would support. The corrupt bureaucrats then use their profits to become criminals in their own right by sending the money overseas to be laundered, set up their family members in front companies, and so forth. FSB director Kovalev suggests, however, that there is more than a desire for material gain at work:

There is a desire on the part of certain officials to take advantage of their authority more than simply for the sake of their own petty interests. The stakes are much higher now. Such bureaucrats are now striving for economic influence. And this is the basis for their meeting with organized crime leaders.¹⁹

Corruption at all levels of government had long been the lubricant that made the Soviet system work. In the Soviet Union, the system was the state itself; in a transforming Russia, it is corruption, which allows OC to function.

In essence, without immediate and decisive action at the highest levels of the executive, legislative, and judicial branches of the Russian government, Russia is likely to become a criminal-syndicalist state comprised of corrupt government bureaucrats, quasi-businessmen, and acknowledged criminals competing and cooperating for the spoils brought forth by a non-communist, pre-capitalist Russia. They share an interest in maintaining power in order to maintain access to the spoils of privatization.

As Mikhail Barsukov, then director of the FSB, stated in an interview for *Moskovskiyе novosti* on March 3, 1996, the political sphere is being criminalized while the criminal sphere is being politicized. According to Barsukov, the term “criminal economy” no longer is a cliché but “has become a virtual reality.”

Russia’s new economy benefited immensely from the transfer of state property to private business. The redistribution of property, as well as economic and political power, is an ongoing process and involves a redistribution of criminal influence. The author Stephen Handelman has called this process the “criminalization of the Russian economy.”

18. Aleksandr Nadzharov, “Interview with Nikolay Kovalev,” *Rossiyskaya gazeta* (weekend edition), December 20, 1996, pp. 4–5. FBIS–SOV–96–246.

19. Natalya Nikulina, “The Man from Lubyanka: Exclusive Interview with FSB of Russia Director Colonel General Nikolay Kovalev,” *Vek* No. 30 (Moscow), FBIS–SOV–96–212–S.

Recent Trends in Russian Organized Crime

The Russian Organized Crime Task Force has identified the following trends in ROC activities. Although these trends do not apply to all ROC groups, they are indicators of the possible path that ROC may take if left unchecked by law enforcement, other executive functions, and the international community.

Activities Involving a High Degree of Sophistication

The world media have paid a great deal of attention to the possible link between ROC groups and the theft and smuggling of nuclear materials. No evidence has been uncovered to link any one of the prominent ROC groups with this activity. Knowledgeable sources, however, have indicated that lower-level organized criminals have sought to facilitate such thefts and transfers on an ad hoc or opportunistic basis. In 1994, 17 Russian generals and admirals visiting the United States rated the chances of “nuclear migration” from Russia to the Middle East “highly probable.” Former British prime minister Margaret Thatcher told ABC News in April 1997 that nuclear materials and weapons had been smuggled out of Russia.

One area of activity that has received relatively little media coverage is the involvement of ROC groups with bank fraud. The illegal transfer of large amounts of money to the West, fraudulent lines of credit, and black market currency exchange point to ROC as a modern criminal enterprise. One recent incident on the periphery of ROC, involving Citicorp operations in Russia, showed that hackers were able to steal large amounts of money electronically [see box on p. 37].

The task force notes that ROC involvement in computer-related crime and crime involving the use of forged or fraudulent bank instruments is expanding dramatically. A Russian Federation Security Council resolution from June 1996 echoes this concern: “The modern stage of computerization of all spheres of vital activities of Russian society is characterized by the growth of crimes committed with the use of computers as tools of crime.” In 1995, authorities uncovered 185 thefts committed by electronic means in Russia, with damages totaling \$4.35 million. More than 300 attempts to break into the Central Bank of Russia computer network were registered between 1993 and 1995. According to data from the Central Bank of Russia, criminals insert fictitious information on payments into the bank’s division networks amounting to millions of dollars each quarter. Credit card forgeries are another high-growth problem area. The number of reported cases of credit card fraud in Moscow from January to June 1996 increased by 150 percent

as compared with January–May 1995, while the number of criminal cases on this type of crime has increased by 400 percent.²⁰

Such operations usually depend on insiders at the banks, individuals who can supply bank network passwords and codes to the criminals. Financial gain is not the only motive for using computers and other sophisticated technological means. ROC groups can utilize computer technology to penetrate police computer networks to destroy records of their illicit activities. In one of the Baltic republics, a database containing the serial numbers of all cars stolen in the former Soviet Union and the Interpol Search List for stolen cars suddenly disappeared from police computers.²¹ In response to this threat, the MVD and FSB initiated the Federal Program for Uncovering and Stopping Computer Crime in June 1996, which boosts training in computer crime countermeasures and facilitates interagency and international cooperation against criminal hackers.

Citibank

The Russian MVD recently solved a major computer crime case, working jointly with the special services of Great Britain, Germany, Israel, and the Netherlands. Knowing that in foreign banks clients can access a bank's electronic network from their personal computers, members of a large international group (including 12 Russians) studied in detail the computer protection system of Citibank, which has branches in 96 countries, including Russia. The criminals allegedly broke through the electronic protection and withdrew large sums of money from different clients' accounts and transferred the money to their accomplices' accounts, opened in advance in different banks abroad. To avoid detection, withdrawal of the money was done in third countries, including Colombia, Hong Kong, [and] Indonesia.

—*Segodnya*,
September 18, 1996

Economic Crime

Russia's economy continues to struggle through the post-Soviet transition toward a market economy. Growth in other "transitional economies" in Eastern Europe continues to outstrip economic performance in Russia: 1996 marked eight straight years of economic contraction in Russia, with industrial output barely half its level in 1992. As of November 1996, some \$8 billion in back wages was owed to Russian workers. A key component of this struggle is economic crime and corruption, which contribute in a variety of ways to a foundering Russian economy that former U.S. ambassador to Russia Thomas Pickering describes as a "horribly misdeveloped economy." An International Labor Organization report said, "There is enough evidence to assert with regrettable confidence that, on average, living

20. Nikolay Modestov, "Swindlers Are Changing the Master-Keys to Credit Cards," *Interfax* No. 23, July 18, 1996, pp. 1, 32. FBIS-SOV-96-139-S.

21. Ivan Akkuratov and Aleksei Batushenko, "Security: Piranhas in Computer Networks," *Ekspert* No. 36, September 23, 1996. FBIS-SOV-96-214-S.

standards have plummeted, that the economic slump has been prolonged and is continuing, and that the consequences for poverty and economic inequality have been very severe.”

The locus of the problem is the OC-controlled shadow economy, which by now has reached, according to various estimates, between 30 percent and 40 percent of Russia’s entire GDP. The problem is far worse in some sectors and areas. In the Urals and Siberia, for example, the FSB reports that criminal sectors control about half the facilities in the state sector of the economy. The shadow economy has at least three characteristics: evasion of state regulation; use of force and intimidation; and the use of hard foreign currency as capital. Within the domain of the shadow economy, a variety of illicit activities continue to crush legitimate economic activity.

Capital Flight

Russia cannot depend on domestic investment to stimulate its economy because of massive capital flight. Nikolay Kovalev, director of Russia’s FSB, states that

[a] huge proportion of corporate entities transfer up to 80 percent of their foreign currency abroad every month. It does not come back. This is assessed by our experts as money ‘laundering.’ However, as a rule we have no legal grounds for recovering this money or even obtaining access to suspicious accounts.

Total capital flight from Russia since 1991 is estimated at \$300 billion.²² Anatoly Kulikov, minister of internal affairs, revealed that in ‘just the last five years our businessmen hid abroad from \$150 to \$300 billion.’²³ Much of the capital is laundered in offshore tax shelters. Zbigniew Brzezinski, a former U.S. national security adviser, estimates that some 65 percent of the \$120 billion Russia has received from Western countries, principally Germany, and international lending institutions has returned to secret accounts in Western countries. The problem of capital flight is sufficiently detrimental to the Russian economy to prompt Kulikov to suggest that ‘in my view we need to think seriously about ‘amnesty’ for criminal money abroad and about its return to Russia.’²⁴

Investment “Chill”

Considerable inflows of capital are needed to stimulate Russia’s economy, to start new businesses, and upgrade outdated technology and infrastructure. Yet fear of ROC activity has scared away many foreign investors. In an April 1997 address to the U.S.–Russian Business Council, U.S. deputy secretary of the treasury Lawrence Summers noted that Russia attracted only \$47 per head in foreign

22. Arnaud de Borchgrave, ‘Russian Journal Blames Capital Flight on Corrupt Officials,’ *Washington Times*, May 22, 1996, p. A11.

23. ‘Interview with Minister of Internal Affairs of Russia Anatoly Kulikov by Yelena Dikun; ‘A Third of Incomes Is Spent on Bribing Officials,’ *Obshchaya gazeta* No. 46 (Moscow), March 3, 1997, p. 21. FBIS–SOV–97–041.

24. *Ibid.*

investment compared with \$326 per head in Poland and \$585 in Chile. He estimated that bribes and protection money equaled 15 percent of total wages in Russia and added that ‘investment just will not happen with that kind of uncertainty or that kind of fear.’ Germany’s interior minister claims that foreign companies in Russia turn over 10 percent to 20 percent of their profit to ROC groups. The only company that has received heavy capitalization from the West is Gazprom, an established giant with political influence.

The Russian government is working hard to improve the climate for foreign investment. FSB Director Kovalev notes that ‘Russian criminals act according to a well-defined scheme. An insider is co-opted into the joint venture’s governing structure, who carefully studies the financial situation of a specific firm. Then coercion is used to seize funds.’²⁵ Kovalev is working toward the creation a special subdivision of the FSB for ensuring the security of foreign investors. Kovalev notes that ‘if such a program is approved by the government, we are ready to take on the protection of foreign businessmen, including their physical security.’²⁶

Since 1993 I felt very strong pressure from people who, it appeared, did not want me to continue with my business or to live here, as it were...both criminal and political forces. You know that, unfortunately, the distance separating them is not very large.

—Boris Berezovsky,
deputy national security secretary
and former president of LogoVaz, Inc.,
Moscow NTV,
November 17, 1996

Bank Fraud and Illicit Activity

According to data from the Central Bank of Russia, 71 percent of the banks in Moscow committed various violations of banking legislation during 1995. Four hundred fourteen banks were fined and licenses were taken away from 74. Criminally punishable crimes in the banking sector totaled 2,005—almost double the number of cases in 1994. CIA estimates link half of the 25 largest banks in Russia with OC groups. Mistrust of Russian banks has led to Russians holding 18.5 percent of their total income at home in foreign cash, primarily U.S. dollars.

One of the most significant obstacles for law enforcement in its battle against corrupt banks is bank secrecy. MVD minister Kulikov admitted in March 1997 that ‘today we do not have the right to intrude into so-called commercial and banking secrets.’ Still, he argues that bank secrecy and undeclared incomes are crucial because

25. ‘Interview with Nikolay Kovalev, Director of the Federal Security Service (FSB), by Igor Korotchenko: ‘The Myth of the Russian Mafia Is Strongly Exaggerated,’ *Nezavisimaya gazeta* (Moscow), February 5, 1997, pp. 1–2. FBIS–SOV–97–025.

26. See also Frank J. Cilluffo and Robert J. Johnston, Russian Organized Crime Problem Won’t Go Away,” *Financial Post*, June 21, 1997, p. 22.

[the] concealment of incomes and their placement in the “shadow” is the foundation on which all organized crime rests. The absence of state control over financial flows in the final analysis turns into an epidemic of contract murders and excessive abuses.²⁷

Tax Evasion

Tax evasion is yet another tactic by which ROC groups and other participants in the shadow economy drain capital from the state. In 1996, tax arrears stood at 6.8 percent of Russia’s GDP. From 1994 to 1995, Russia’s tax police reported that “violations of tax legislation on a large and particularly large scale” jumped from 8,300 to more than 13,500. Plans to increase tax collection came only under pressure from the International Monetary Fund. In his March 1997 State of the Federation address, Yeltsin claimed that the “stranglehold of non-payment is paralyzing the economy.”

Bank Corruption and Politics

The *Financial Times* has editorialized that Russia now is run by an oligarchy of six bankers and businessmen, headed by the controversial Boris Berezovsky, who, among other things, is deputy secretary of Russia’s Security Council. Berezovsky is said to be leading the push to establish a tax-free regime in Chechnya—a regime that could benefit his business interests. Asked if he uses his position to advance the interests of his companies, Berezovsky stated on Russian TV that “here my position is quite clear: I cannot give priority to any one company.” Still, that the increased concentration of control over finance, industry, the media, the security services, and even the Kremlin itself in the hands of so few individuals is a worrisome trend for democracy in Russia.

Far from creating a market economy and a political democracy, Russia has formed and consolidated a semi-criminal oligarchy.

—Grigory Yavlinsky,
January 31, 1997

Use of Violence

For the most part, ROC figures strive for respectability, joining the best clubs in Western countries and sending their children to expensive private schools. Twenty percent of students at Switzerland’s La Rosey, where costs run \$75,000 per year, are Russian. Despite this veneer of respectability, however, ROC groups have never shrunk from the use of violence as a means of establishing themselves in a

27. “Interview with Minister of Internal Affairs of Russia Anatoly Kulikov by Yelena Dikun: ‘A Third of Incomes Is Spent on Bribing Officials,’” *Obshchaya gazeta* No. 46 (Moscow), March 3, 1997, p. 21. FBIS–SOV–97–041.

new area and maintaining control once they have begun operations. Significant violent acts were associated with the establishment of Chechen ROC groups in Argentina and with the beginning of ROC operations in Brighton Beach, New York.

A *New York Times* story published on July 19, 1996, detailed the activities of one known Russian criminal. As part of an attempt to extort money from a Russian émigré businessman in New York, ROC leader Vyacheslav Ivankov arranged for the father of one of his extortion targets to be beaten to death in a Moscow train station. Ivankov, according to the reports, also put out murder contracts on the FBI special agents involved in the investigation of his activities in the United States.

ROC groups also have been known to engage extensively in contract murders and arson against Russian businesses whose owners refuse to pay extortion money. Several incidents have been reported in which rival ROC groups have had prolonged gun battles in crowded restaurants or in other public areas.

Current information indicates that the incidence of violence related to OC in Russia is on the rise and already is significantly higher than that of the United States. ROC groups are heavily armed, according to the 1996 annual report of the MVD. From just 27 gangs, they seized 3,900 firearms, 91 grenade launchers, and 1,500 grenades from their members.²⁸

Contract killing is one of the most pernicious problems for Russian law enforcement. The MVD, in its 1996 annual report, alluded to the challenge, noting that

last year there were 580 reported homicides that appeared to be contract murders. Only 70 were solved during that year. We have to admit, however, that contract killings are the most difficult of all violent crimes to solve, primarily because they are usually committed by highly professional “experts” in an atmosphere of deep secrecy.²⁹

There were 562 contract murders in Russia in 1994 (of which only 132 were solved), compared with 289 in 1993 and 102 in 1992. Of the 562 incidents in 1994, firearms were used in 386 cases and explosives in 143 cases.³⁰ Of the 562 murder victims that year, 185 were criminal figures from the Russian underworld and 177 were businessmen. It has been reported that the cost of a contract killing in Russia ranges from \$1,000 to \$100,000, depending on the prominence of the intended victim.³¹

28. “MVD Report: Latest Data on the Performance of Internal Affairs Agencies and Internal Troops in 1996,” pp. i–iv.

29. *Ibid.*

30. The use of explosives has been noted in a number of recent ROC-related attacks. It is apparent that this is designed to send a message while eliminating opponents or those who refuse to pay extortion. Russian law enforcement sources have reported numerous thefts of explosives and ordnance from military depots and bases.

31. Valeri Velichko, “Official Corruption Is a Major Crime Threat,” *Rossiyskiye vesti* (Moscow), in FBIS, August 21, 1995; and Viktor Yasmann, “Murder Incorporated, Russian Style,” *Prism*, The Jamestown Foundation, August 11, 1995.

Violence appears to have no boundaries and has extended into the State Duma as well as the press. In 1994, for example, one member of the State Duma, Andrey Aidedzis, was assassinated after distributing a list of OC members. At least four other members of the State Duma also have been murdered. Journalists are frequent targets as well, including Dmitry Kholodov, an investigative reporter who was killed by a bomb in October 1994 while investigating corruption in the Russian Western Group of Forces; and prominent television personality Vladimir Listyev, who was gunned down in March 1995.³²

Transnational Implications

ROC extends into a number of countries of the former Soviet Union. Georgia, Latvia, Lithuania, Belarus, Tajikistan, Estonia, Armenia, Azerbaijan, Kazakstan, and Ukraine, inter alia, all have a problem with OC. Much of the problem originates in Russia.

The initial foray into other foreign countries was into Eastern Europe. In these countries, the Russian mafia could take advantage of the nascent post-communist law enforcement and judicial systems, which were struggling to adjust to the new situation. ROC then began to move into Germany and other countries in Western Europe. Berlin soon became a major source of revenue for ROC groups involved in prostitution, drug smuggling, and car theft. Germany's interior minister noted that "Europe has become open in terms of criminal geography, it has become a playground for international gangs."³³ In March 1997, 13 major members of the Brigade of the Sun, one of Moscow's three largest criminal organizations, were arrested in the Italian ski resort of Madonna di Campiglio. The Russians were meeting to coordinate their money laundering operations in Italy.

Next came the United States, a country in which there was a large immigrant population to provide organized criminals with a relatively supportive environment in which to operate—and an immigrant population on which to prey. More recently, there are indications that ROC is becoming active in Latin America and the Caribbean, too. In August 1995, knowledgeable sources advised the task force that several Chechen groups had set up a criminal infrastructure in Argentina. These groups, which Argentine media reports said originated with the June 1995 arrival of 21 transplanted Chechens, already are reported to be engaged actively in extortion and are thought to be extremely violent.

As the FBI states,

it has been recently reported that ROC elements have begun cooperating with elements of the Italian Mafia and South American drug cartels. Should these forces combine in any organized fashion they could pose a significant threat to Europe and the United States. If one adds to that already dangerous mix the possibility that ROC elements could help these, or other groups, gain access to

32. See Appendix A for a comprehensive list of ROC-related assassinations.

33. Christian Sturm, "Interview with Kurt Schelter, State Secretary in the German Interior Ministry," *Focus* (Munich), November 18, 1996 p. 28. FBIS-WEU-96-225.

nuclear materials or other sophisticated weapons, then the scenario becomes truly frightening.³⁴

The task force concluded that these criminal forces indeed have combined in “organized fashion.” Authorities have detected a division of labor in a number of countries, including the United States. Also, in August 1995, Canadian authorities issued an intelligence report that concluded that ROC families posed a real and direct threat to Canada and Canadian interests.³⁵ Numerous media reports have referenced the presence and activities of ROC groups in Toronto and other major Canadian cities.

ROC is following the trend of other OC groups and is assuming a transnational dimension. The links between ethnic conflict and crime, demonstrated by such groups as the Tamils in Sri Lanka and the Muslims in Bosnia, also exist within the Chechens, Georgians, and Tadjiks. These latter groups are engaged in a variety of conflict-related criminal activity that has transnational dimensions. Indeed, ROC groups have shown an eagerness to pursue criminal activities regardless of the political boundaries that might be crossed. ROC groups reflect patterns of globalization in their pursuit of profits through the penetration of new markets by forming strategic alliances with other criminal organizations. In fact, several of the most profitable criminal enterprises in which ROC groups have been shown to be involved, by their very nature, are transnational. Among these activities are:

- ❑ The theft of automobiles from Germany, the Czech Republic, and Poland, and the subsequent black market resale of the vehicles in Russia. The total value of cars stolen from European Union countries in one recent year totaled \$2 billion.
- ❑ The facilitation of shipments of narcotic drugs between producer countries in Latin America and Southeast Asia and consumers in the United States and Europe.
- ❑ The extortion of prominent businessmen through the Russian émigré populations of foreign countries.
- ❑ The laundering of illegal profits through shell companies, real estate investments, and bank accounts in Cyprus, Austria, Liechtenstein, Switzerland, the Persian Gulf Emirates, and offshore banking centers. Swiss banks alone hold an estimated \$10 billion of Russian mafia money.

Several of the more prominent ROC groups have been shown to maintain relationships with non-Russian criminal enterprises. These relationships are maintained over the long term and are utilized, when necessary, for the purpose of carrying out transnational criminal activities. The fact that seemingly unrelated organized criminal groups from various countries are coordinating activities

34. Federal Bureau of Investigation, “White Paper on Russian/Eurasian Organized Crime,” 1995.

35. See *1995 Canadian Security Intelligence Service Annual Report and Resource Outlook* (Ottawa: Supply and Services, 1995).

represents a significant problem for law enforcement agencies fighting the proliferation of the groups on a country-by-country level. Criminal organizations are not bound by the same bureaucratic or jurisdictional difficulties that apply to law enforcement.

To date, U.S. law enforcement³⁶ officials have established a clear relationship between ROC groups and La Cosa Nostra (LCN), the Italian–American criminal network in the United States. The LCN is cooperating with ROC groups on activities related to gambling, extortion, prostitution, and fraud. In the “Red Daisy” case, FBI and Internal Revenue Service (IRS) observance of a ROC fuel excise tax fraud scheme in New Jersey led to the indictment of 15 Russian immigrants and provided information that conclusively linked the involved Russians with members of the LCN. This case eventually proved that the ROC group was paying dividends to the LCN for each dollar of the illegal \$140 million in profit earned through the fraud scheme.

Cooperative efforts between ROC groups and the Colombian drug cartels are centered in Miami, where the local FBI office characterized the Russian gangsters as “very brutal...they are very sophisticated. They are computer literate. They hit the ground running.” Miami represents a gateway to both the United States and Latin America. The Drug Enforcement Agency (DEA) and FBI disrupted one scheme that involved a plan to use a Russian-built submarine to smuggle cocaine from Colombia to the United States.

ROC also is known or is reported to be involved in criminal activity with other major international OC groups, including the Sicilian Mafia, the Ndrangheta, the Camorra, the Boryokudan (Japanese *Yakuza*), Chinese Triads, Korean criminal groups, Turkish drug traffickers, and Colombian drug cartels and other South American drug organizations.³⁷ These groups have cooperated with their Russian counterparts in international narcotics trafficking, money laundering, and counterfeiting.

Two major drug smuggling cases in 1996 illustrate the transnational reach of ROC. The first involved Russians as well as individuals from the Netherlands, Ukraine, Belarus, and African countries in an attempt to smuggle four tons of drugs via Russia. The second case involved ROC operations in five West European countries and Russia; the illicit activities led to a joint operation among the involved governments against a transnational drug trafficking group—and to the confiscation of 2.5 tons of drugs.

In testimony before the U.S. Senate, FBI director Louis Freeh stated that some 27 ROC groups had been identified as operating in the United States. The

36. U.S. federal law enforcement entities involved in the fight against ROC include, but are not limited to, the Bureau of Alcohol, Tobacco, and Firearms; Immigration and Naturalization Service; Financial Crimes Enforcement Network; Internal Revenue Service; DEA; U.S. Customs Service; U.S. Secret Service; and FBI. Several of these groups, as well as elements of the foreign affairs and intelligence communities of the U.S. government, also are involved in the provision of training and technical assistance. More information on the training aspect can be obtained through the Office of Ambassador Richard L. Morningstar, Coordinator of U.S. Assistance to the Newly Independent States.

37. “White Paper on Russian/Eurasian Organized Crime.”

activities of these groups are believed to center primarily around such major U.S. cities as San Francisco, Los Angeles, Miami, Chicago, and New York. One MVD official stated that ROC activities in the United States include money laundering, illegal money transactions, and narcotics trafficking. Other countries with a known and active ROC presence include Germany, with 47 groups; and Italy, with 60 groups. The MVD estimates that over 100 ROC groups are active in at least 50 countries.

The law enforcement community in the United States generally agrees with the MVD estimate of ROC activities in the United States. U.S. law enforcement positively has identified at least 26 ROC groups or enterprises in the United States (as opposed to the MVD's estimate of 24).³⁸ These groups were shown to have a major presence in the New York City metropolitan area, Miami, Los Angeles, and 14 other cities in 15 states. The FBI notes that Russian émigré OC has been, and continues to be, headquartered in New York City's Brighton Beach neighborhood of Brooklyn (nicknamed "Little Odessa"), and that much of this crime is run by an umbrella entity known as the *Organizatsiya*. Other ROC operations have also been identified in New Jersey, Boston, San Francisco, Chicago, Seattle, Denver, Cleveland, Detroit, and Philadelphia.

U.S. law enforcement has been involved in several major investigations of ROC-related individuals in the past three years. A brief rendering of these cases provides insight into the sophistication and extent of the criminality. In December 1993, for example, FBI agents arrested nine ROC-related individuals who were attempting to collect fraudulent fuel excise taxes in the area of Fort Lauderdale, Florida.³⁹ Then, in 1994, as mentioned earlier, the FBI arrested several Russians in New Jersey for their collection of fraudulent fuel excise taxes—the largest case of its kind in U.S. history. This case established the first concrete link between ROC and the LCN. Furthermore, a leading *vor*, the aforementioned Vyacheslav Ivankov (also known as *Yaponchik*) was arrested in 1995 for masterminding an attempt to extort \$8.5 million from two Russian émigrés who owned a Wall Street financial consulting firm. On September 12, 1995, FBI and IRS agents took part in the arrest of 12 members of a Russian–Armenian crime group in Los Angeles. These individuals were participating in a fuel excise tax fraud scheme as well as engaging in heroin trafficking and running prostitution rings.

Corruption in the Bureaucracy

Corruption of the official Russian bureaucracy poses, in many ways, the most serious threat to the interests of the United States and other countries. The concept of "official corruption" is grounded firmly in a reality that was forged before the Bolshevik Revolution and reinforced during the communist era. Even though the Soviet state repressed the political freedoms of its citizenry, it allowed a black

38. *Ibid.*, plus assorted off-the-record conversations with FBI sources.

39. Professor Alan A. Brock of Pennsylvania State University prepared a definitive study on this gasoline tax scheme entitled *Racketeering in Fuels: Tax Scamming by Organized Crime* (State College, Pa.: Administration of Criminal Justice, Pennsylvania State University).

A Pervasive Link: Russian Organized Crime and Sports

An entirely new and broader segment of the U.S. population became aware of ROC when professional hockey players Alexei Zhitnik, Vladimir Malakhov, and Alexander Mogilny were targeted for extortion by Russian gangsters. According to a congressional hearing in 1996, Mogilny was able to evade the threat with the help of the FBI, while Zhitnik allegedly solved the problem by going to a "more powerful criminal to take care of the problem."

Sports and OC have become increasingly connected in the former Soviet Union in several ways. First, there are documented cases of embezzlement of funds from the former Goliath of Soviet sport, the Central Red Army Sports Club. The president of the Russian Ice Hockey Federation was murdered in April 1997. Another major sports club, Moscow Spartak, lost its director general in a contract killing in June 1997.

Second, the National Sports Fund (NSF), ostensibly a government enterprise for ruling sports activities, allegedly was exploited in a variety of ways by members of the inner circle. There are numerous media reports that link the NSF with an individual named Otari Kvantrishvili. Until his death amid a hail of gunfire at a public steam bath house in 1994, Kvantrishvili was a major figure in ROC. His *krysha* was composed mostly of bodybuilders and former competitive weightlifters and was centered around the NSF. He allegedly used his influence over the tax-exempt NSF to import vodka and cigarettes improperly. Portions of the profits from the sale of these items are believed to have been used as bribes for officials in the Russian government. An August 6, 1996, article in the *International Herald Tribune* notes that Sports Minister Shamil Tarpishchev and then-presidential security chief Aleksandr Korzhakov were involved actively in efforts to build up the NSF through the importation of vodka and cigarettes (possibly through Kvantrishvili). After forcing out NSF chairman Boris Fedorov, the article notes that Korzhakov funneled money to the Yeltsin reelection campaign.

A final problem in the area of sport and OC has fewer implications for Russian politics but is illustrative of the damage ROC is causing in Russian civil society. The Russian hockey system was to have been restored to its former glory on the basis of lucrative transfer fees paid to the Russian clubs by National Hockey League teams eager to sign Russian talent. Despite the over \$10 million in transfer fees paid for Russian players to date, however, there is little evidence of reinvestment in Russian hockey. Although perhaps a trivial example to some, the corruption in Russian sports illustrates the breadth of the effects of OC on Russian society.

market (*na leva*) or gray economy to flourish as a means of taking care of the demand that exceeded what the state could provide. As a significant component of this economy, individual bureaucrats would demand personal incentive payments for services that were part of their official duties or engage in various barter schemes to ensure quotas were met. This "normal" corruption established a basis of habit for the illegality that supports the criminal groups of today.

Official corruption in Russia may well become the most difficult problem for international relations. Russian news is replete with allegations of senior army generals who have sold off state property, government ministers who have

manipulated the privatization process, and ranking security service personnel who have conducted inappropriate surveillance on other bureaucrats and private citizens. The link between these allegations is that the accused abuse their government positions for personal enrichment and the acquisition of power. The pervasiveness of these crimes is such that a Russian magazine, *Ekonomika i zhizn*, in its compilation of economic crimes between 1993 and 1995, lists malfeasance by officials and bribery as one of its main categories. These figures show that during those years there were 15,000 investigations of crimes committed by officials, of which approximately 33 percent involved bribery.

Negotiating with bureaucrats about halting cases of corruption in which the bureaucrats themselves are involved is a daunting, if not impossible, task. The problem is so deeply entrenched in Russia today that some have gone so far as to shrug their shoulders and suggest that “We simply choose the criminals with whom we will deal in order to execute foreign policy.”

The issue of corruption must be handled as a systemic issue. Prevalent acceptance of corruption by Russian society and the Russian economy makes it extremely difficult to operate legitimately. Operating a business or running for office without the protection of a *krysha* or another form of protection exposes an individual to threats from prospective political or commercial rivals that endanger his business, his campaign, or even his life. If the corruption issue cannot be addressed adequately, then legal structures cannot be put into place. If legal structures are not put into place, then Western investment and aid programs will not succeed. If these things are thwarted, then Russia’s development toward becoming an economically liberal and democratic state is in significant jeopardy.

Cases of these forms of corruption abound. In February 1996, for example, Aleksei Ilyushenko, Russia’s former prosecutor general, was charged with bribery and abuse of power while in office. This action followed the firing of Russia’s top official dealing with precious metals, a senior treasury official, and a prominent postal service manager. These dismissals indicated the willingness and ability of the MVD to take action against corrupt officials, but substantially greater amounts of action are necessary. The 1996 MVD Report on the Performance of the Internal Agencies details the breadth of corruption throughout virtually all branches of the government and bureaucracy. The distribution on indictments for corruption reflect its pervasiveness: “personnel of ministries, committees, and local structures—41.1%; personnel of credit and finance system—11.7%; personnel of regulatory agencies—8.9%; deputies—0.8%; personnel of law enforcement agencies—26.5%; personnel of customs service—3.2%; others—7.8%.”⁴⁰ Even the State Duma is plagued by corruption. The price of a certificate of registration as an official aide to a State Duma member is priced on the black market at between \$4,000 and \$5,000. Many State Duma members have over 20 staff members, even though just 5 is deemed necessary by most members. “Unimpeded access” to decision-making officials is in high demand by legitimate and illegitimate business interests in Russia—swelling the number of certificates sold.⁴¹

40. “MVD Report: Latest Data on the Performance of Internal Affairs Agencies and Internal Troops in 1996,” pp. i–iv.

Many MVD officers, along with certain judges and prosecutors, are committed to the war against ROC and have made great sacrifices in their efforts. Unfortunately, the MVD and other branches of the criminal judiciary system are themselves experiencing significant problems with corruption. For example, on June 18, 1996, according to a report by ITAR–TASS, a senior MVD official, Major General Svyatoslav Golitsyn, announced that 1,277 police officers had been convicted during the 1995 “clean hands” campaign, 533 for abuse of office. General Golitsyn directs the MVD’s Administration for Internal Security, which is charged with the investigation of bribery, the penetration of police by criminal groups, and, in turn, the circulation of police information to criminal groups. According to Interior Minister Kulikov, several high-ranking generals within MVD have been dismissed for corruption. A notable example is the chief of the St. Petersburg Judicial Institute, who built a house for himself—despite already owning six apartments. The ranks of the UBEP (tax police) and GUVB (militia) in St. Petersburg are filled with corrupt members, according to the MVD. Top officials were dismissed after four separate illicit rings involving St. Petersburg militia and tax police were broken up. In one scheme, militia members inspected foreign cars searching for stolen cars. When stolen cars were discovered, they were seized and resold by the militia. Tax police inspectors shake down local kiosks and seize retail goods, only to resell them at their own kiosks.⁴²

MVD officials have been implicated in other illicit dealings as well. In the Sakhalin region in the Far East, earthquake relief donations were skimmed by a local police officer. In northern Arkhangelsk, a police officer ran an extortion racket against local citizens by gathering compromising information on them and then demanding money to keep quiet. Traffic police regularly accept bribes in lieu of issuing tickets, largely to supplement their meager incomes. (Salaries for traffic police average a mere \$100 a month throughout the country.) Police also have used their influence to run black market businesses and to buy state assets at heavily discounted prices.

In May 1997, General Golitsyn reported that a staggering 21,347 officers in police departments across Russia had been dismissed “for violating internal rules.” In an indication of the inability or unwillingness of the current regime to prosecute these cases, only 404 officers were punished for corruption. General Golitsyn admitted that these dismissals were “just the tip of the iceberg,” adding, “I’m sure acts of corruption are far more frequent.”⁴³

Low morale and a high number of unfilled positions exacerbate problems of corruption within the MVD and other leading Russian law enforcement agencies. The MVD notes that

41. Anatoly Stepovoy, “*Okhotnyi Ryad* Free to All. Deputy’s Aides Have Been Killed in the Past, and to All Appearances Will Be Killed in the Future,” *Izvestiya* (Moscow), March 1, 1997, pp. 1–2. FBIS–SOV–97–043.

42. Olga Romanova, “St. Petersburg Has Been Designated the ‘Cradle of Corruption,’” *Segodnya* (Moscow), December 18, 1996, p. 2.

43. Adam Tanner, “Corruption on Rise Among Russian Police-Officials,” *Reuters Executive News Service*, May 29, 1997.

[the] number of public safety police officers in Russia is equivalent to only 72.5% of the average required number, and the number of patrolmen is equivalent to only 68.5%. Furthermore, the number does not exceed 30 percent in the Altay Republic and in Tomsk and Chita Oblasts.⁴⁴

Overall, corruption presents an extremely difficult challenge. One solution proposed by Interior Minister Kulikov, and invoked by President Yeltsin in May 1997, is income declaration. Without greater transparency in the bureaucracy and power ministries, corrupt officials will be able to continue to enjoy the benefits of bribery with near impunity. If the officials are required to declare their income, then, as Kulikov notes, the MVD could approach suspect individuals and request, ‘Be so good as to explain where you got this apartment, these antiques, and this Mercedes 600. If he cannot prove that it was all acquired legal, then all his property must be confiscated through the courts.’⁴⁵

Morale in the MVD

In addition to the problem of recruiting new personnel, there is the urgent need to encourage personnel to stay in the MVD system. Although the number of people leaving the system has been reduced, the situation is critical for at least two reasons. First of all, many cannot withstand the pressure of the work and justifiably feel that the level of social protection for ministry personnel is inadequate for such intensive and stressful work. Second, there have been more than active efforts to strengthen discipline and legality in the actions of personnel and to dismiss those who have discredited themselves. During the year 24,000 people were dismissed from internal affairs agencies for negative reasons.

—“MVD Report:
Latest Data
on the Performance
of Internal Affairs Agencies
and Internal Troops in 1996”

44. ‘MVD Report: Latest Data on the Performance of Internal Affairs Agencies and Internal Troops in 1996,’ pp. i–iv.

45. ‘First Hand: The Commander of All Sneaks; Interview with Deputy Prime Minister Anatoly Kulikov by Yelena Dikun,’ *Obshchaya gazeta* No. 7 (Moscow), February 20–26, 1997, p. 7. FBIS–SOV–97–047.

The Relevance of Russian Organized Crime

In assessing the nature of the threat of OC, the Russian Organized Crime Task Force identified two significant areas of concern. First, ROC activities pose a strategic threat to the United States if they destabilize Russia through an increase in corruption and a limitation of economic growth and development, rendering Russia an unreliable partner for any endeavor. Second, these activities constitute an internal threat to the United States by increasing the domestic crime rate and the socioeconomic costs that naturally follow.

The task force concludes that the law enforcement threat from ROC activities in the United States is comparatively small at the present time compared with the national security threat posed by ROC activities in Russia. The task force believes that U.S. law enforcement is making significant progress in addressing the ROC threat in the United States and that the efforts of these groups should be commended. As ROC activity grows in the United States, however, federal and local governments will need to direct more resources toward neutralizing ROC activities.

The task force expects the impact of Russian crime, both internally in the United States and externally in international relations, to increase in the foreseeable future. In fact, it is possible that the problem may develop over the next few years to a point at which it becomes the number one crime and national security threat facing U.S. policymakers. The problem will be compounded by the ROC groups' transnational connections, particularly in the areas of money laundering and drug trafficking. The task force also estimates that cases of commercial fraud, such as those already experienced in the areas of the insurance industry, medicine, and business, also will increase in the United States, and that these criminal schemes will impose a heavy burden on the taxpayer. The various threats to U.S. national security and law enforcement arise out of two trends relating to the emergence of ROC: the rise of a criminal-syndicalist state and the destabilizing effect of ROC activity on Russia.

Task Force Threat Assessment: Future Development of Russian Organized Crime—An Emerging Criminal- Syndicalist State?

What is the direction of ROC if it is not checked? In the absence of effective action by Russia and the West to counter ROC, three trends are likely to continue

unabated. First, there would be a consolidation of the varied criminal groups into several “clans.” A second trend would involve the continued expansion of ROC into the West and its development into true “transnational” bodies. This would threaten the national security postures of the United States and other countries. Third, a criminal-syndicalist state would develop that spans 11 time zones—an “iron triangle” composed of entrenched central government bureaucrats, business cartels practicing “raw capitalism,” and the OC leadership itself. This development could create a scenario in which actions taken by Russia’s political leadership were just as likely to be guided and motivated by the personal willingness of its members to engage in criminal activities for private gain as they were to be guided by a broader sense of Russia’s national interest.

The task force believes the third trend reflects the current developments in Russia and, unless addressed directly, is the most dangerous. The present situation in Russia includes a troika of these groups possibly interacting, in some cases, with current and former elements of the military, law enforcement agencies, and security services. The troika is self-perpetuating because the groups share common interests in its success. Russia already has been witness to a chilling preview of this type of alliance. President Yeltsin forced out General Burlakov after his alleged role in the assassination of a prominent Russian investigative journalist was revealed. The death of the journalist, Dmitry Kholodov, prompted both domestic and international outrage. Kholodov had been investigating military corruption and apparently was standing on the verge of exposing Burlakov and his network of corrupt officers. When faced with the possible demise of his criminal enterprise, Burlakov allegedly struck. Russians were appalled by the brutal suppression of the free press, by the vicious nature of the assassination, and by the realization that the military no longer could be trusted.

Prior to his dismissal after only months in office, General Lebed—at the time secretary of Russia’s Security Council and President Yeltsin’s chief national security aide—had made the war against corruption his top priority.

The Russian Organized Crime–Security Services Link

The involvement of corrupt members of the security services—both retired and active—first in facilitating, then in perpetuating, ROC makes the problem difficult to combat and subsequently fosters the emergence of a criminal-syndicalist state. In December 1996, former DCI R. James Woolsey warned that current and former officials in the Russian SVR, the successor to the KGB foreign intelligence directorate, as well as officials in the Ministries of the Interior and Defense “are very much in bed with Russian organized crime groups.”⁴⁶ Retired and active intelligence and security officials are linked with ROC groups in at least three ways: (1) through the use of intelligence tradecraft for criminal purposes; (2) by their ability to protect ROC activity from inside the government itself; and (3) through their contacts in overseas networks and business ventures that date back to KGB operations as the Soviet Union was breaking up in the late 1980s.

46. R. James Woolsey, cited in Agence France-Presse, “Former U.S. CIA Head Says Russian Mafia Threatens U.S. Security,” December 8, 1996.

The first aspect of the ROC–intelligence link involves the use of intelligence tradecraft in ROC activity. The collapse of the Soviet Union brought about a significant reduction in the number of KGB “effectives.”⁴⁷ The new Russian government laid off or retired 100,000 personnel, which resulted in many displaced security specialists’ finding new homes in ROC groups in which their expertise was in demand. The *Washington Post* notes that ROC groups “have often simply bought the people and weapons of the old Soviet police state.”⁴⁸ According to Representative Tom Lantos (D–Calif.), former Soviet intelligence officers are needed because they “have extensive training, access to technology that contributes to their criminal success, and many links to individuals and groups involved in the widespread black market that flourished under the Soviet government.”⁴⁹ Members and former members from these groups apparently have joined with ROC groups and are utilizing time-tested methods of tradecraft to expedite their criminal dealings.⁵⁰ Some of these former officers have provided criminal elements even with agent nets or individual agents who then are recruited to extend their activities abroad. Michael Sika, Austria’s principal police anti-mafia specialist states, that “Russian organized crime activities in Austria are much bigger than our public thinks, and to some extent the same people seem to be involved now who were affiliated with the former huge Soviet espionage establishment in Vienna.”⁵¹

Western police and intelligence authorities have established the blending of OC and individuals from the former Soviet intelligence and security services. Former DCI Deutch has testified that “I do agree that in Russian organized crime there is the presence of ex-security service members, KGB members, and ex-military members.”⁵² FBI deputy assistant director Alan Ringgold told a conference in Manila that many of the criminal groups from the former Soviet Union have membership and expertise from the ex-Soviet intelligence and security services.⁵³

47. The KGB has splintered and partly reformed since the end of the Cold War. Its main successor agencies are the FSB (Federal Security Service, or *Federalnaya Sluzhba Bezopasnosti*, responsible for domestic counterintelligence), FAPSI (Federal Agency for Government Communications and Information, or *Federalnoye Agentsvo Pravitelstvennoy Svyazi i Informatsii*, responsible for information security and signals intelligence), and the SVR (Foreign Intelligence Service, or *Sluzhba Vneshney Razvedki*, responsible for foreign intelligence). Federal law enforcement responsibilities are handled by the MVD. For a detailed overview of the post-KGB Russian intelligence and security community, see Amy Knight, *Spies Without Cloaks* (Princeton, N.J.: Princeton University Press, 1996) and J. Michael Waller, *Secret Empire: The KGB in Russia Today* (Boulder, Colo.: Westview Press, 1994).

48. David Hoffman, “Banditry Threatens the New Russia,” *Washington Post*, May 12, 1997, p. A1.

49. Congressman Tom Lantos (D–Calif.), “The Threat of International Organized Crime,” Hearing before the Subcommittee on International Security, International Organizations, and Human Rights of the Committee on Foreign Affairs, House of Representatives, 103rd Cong., 1st Sess., November 4, 1993.

50. Arnaud de Borchgrave, “Russian Journal Blames Capital Flight on Corrupt Officials,” *Washington Times*, May 22, 1996, p. A11.

51. Cited in Eric Geiger, “Austria Feels Chill of Booming Mafia,” *San Francisco Chronicle*, January 22, 1995, p. 6.

52. John Deutch, “The Threat from Russian Organized Crime,” Hearing before the Committee on International Relations, House of Representatives, 104th Cong., 2nd Sess., April 30, 1996.

Benjamin A. Gilman, chairman of the U.S. House International Relations Committee:

What is the level of former KGB figures' involvement with Russian organized crime in the former Soviet Union? Are these KGB people using their prior contacts around the globe to mutually advance and coordinate some of these global organized crime elements?

David Carey, director, Crime and Narcotics Center, Central Intelligence Agency:

There is absolutely no doubt that some are working with organized crime extensively.... I think it is a much more pronounced phenomenon within the borders of the former Soviet Union at this point than it is globally, in part because these are the skills that the former KGB officers have to sell in the marketplace in those countries.... There is a continuing question as to the extent that organized crime is working with successor organizations rather than individuals within those organizations.

—From "Global Organized Crime,"
Hearing before the International Relations Committee
of the House of Representatives,
104th Cong., 2nd Sess.,
January 31, 1996

The second aspect of the ROC–security services link is the bribery of active intelligence and security officials by ROC groups. Criminal elements target the special services to attempt to penetrate, control, coopt, corrupt, and otherwise hinder law enforcement efforts to stop their criminal operations. Deutch highlighted this concern in his 1996 testimony: "Officials of the law enforcement and security services provide criminals with protection from arrest and prosecution."⁵⁴

The strikingly low pay of officials in Russia's security services is a major cause of corruption. Officers in the MVD in particular are poorly paid, and there are numerous documented instances in which senior members have been fired or prosecuted for corruption. "Today the material situation of our intelligence officers is more difficult than ever before," according to Alexey Aleksandrov, chairman of the State Duma Subcommittee for Legislation in the Sphere of State Security and Foreign Intelligence. "This is bad because in order to survive they need to do jobs outside their profession." Aleksandrov's Russian interviewer commented that "The phenomenon of agents earning additional income on the side is quite common not only in our country. But intelligence officers engaged in selling Western consumer goods at flea markets is democratic Russia's achievement."⁵⁵

53. Cited in *Russian Reform Monitor* No. 122, April 15, 1996, p. 1.

54. John Deutch, "The Threat from Russian Organized Crime."

55. Gennadi Charodeyev, "CIS Special Services Will Probably Unite, But for the Time Being They Are Spying on One Another," *Izvestiya* (Moscow), December 10, 1996, p. 5.

Individual corrupt officials also are lining their own pockets through fraud. Five senior officials in FAPSI, the Federal Agency for Government Communications and Information, have been forced out because of financial scandal and corruption in the past three years. For example, Valery Monastiretsky, former director of FAPSI's financial operations, has been jailed for illicitly funneling \$7.25 million to offshore accounts in the Virgin Islands and elsewhere.⁵⁶ Corrupt officials also can enrich themselves by accepting bribes to assist ROC groups. In another case, the SVR reportedly blocked parliamentary investigation into the illegal transfer of hard currency to Western banks by KGB and Communist Party officials.⁵⁷

The potential danger of the link between ROC groups and corrupt individuals in the intelligence community extends well beyond mere criminality. Russian security forces are a major source of the arms that are transferred illicitly to OC groups and corrupt officials to be sold in the black, gray, and legal arms markets in their various dimensions because they are the only ones with access to the weaponry.⁵⁸ An even greater danger relates to reports from German authorities that former Russian counterintelligence officers were procuring nuclear materials for illegal sale abroad. In the words of one prominent observer of Russia's intelligence community, "It is entirely possible that security officials currently employed at the FSB accept bribes or even participate in smuggling nuclear materials."⁵⁹

The third aspect of the ROC–security link relates to the involvement of the KGB in the opening up of the Soviet economy during the twilight days of the Soviet Union. The KGB was one of the few institutions in the former Soviet Union that sensed the coming demise of the communist system. At the very least, certain elements or individuals in the services understood what was about to happen. By the mid-1980s (some would argue that this recognition occurred earlier, under Yuri Andropov), the Soviet intelligence community knew that, short of fundamental reform, the system was headed for collapse. Domestically, KGB internal organs relaxed pressure on the various criminal, black market, gray, and underground gangs and abandoned any pretense of conforming to "socialist legality" (such as it was) and began to make accommodations with the "thieves' code" and other unwritten rules of the Russian underground.

When the Soviet system imploded in 1991, the KGB and other security organs were well on their way toward forming "arrangements" and, indeed, joint ventures with old-line and newly formed criminal or otherwise shady entities. This applied not only to the internal security elements like the KGB's domestic organs and the MVD, but also to the KGB's foreign intelligence service, the First Chief Directorate (now the Foreign Intelligence Service, or SVR). In the First Chief Directorate there was a decision to exploit the expanding international commercial activity of

56. Carey Scott, "Spy Chief Jailed for Creaming off Pounds 4.5m," *Sunday Times* (London), April 20, 1997. From Lexis–Nexis.

57. J. Michael Waller, "Crime and the Russian State," *Demokratizatsiya*, Vol. 2, No. 3 (Summer 1994), p. 367.

58. Graham Turbiville, "Weapons Proliferation and Organized Crime: The Russian Military and Security Force Dimension," *INSS Occasional Paper* No. 10, June 1996, p. 8.

59. Amy Knight, "Is the Old KGB Still in Power?" *Washington Quarterly*, Vol. 20, No. 1 (Winter 1997), p. 65.

Many analysts now agree with Russian President Boris Yeltsin that Russia has become “a superpower of crime,” *not merely because of the absence of adequate laws or a supposed “robber baron” stage of economic development....* The Russian business sector has been deeply penetrated by former high-ranking KGB officers who, again, actually steered the creation and development in the late 1980’s and merged large portions of these entities into the criminal underworld. Now, under this KGB tutelage, the mafiya, which if we look back a decade ago in Russia, yes, it was a problem, but it was nothing like the problem that we see today.... The fact that they were tutored by the KGB, they provided them with professional intelligence techniques, and I think that it is very clear to me that it is going to continue to be a challenge in terms of the links between current Russian intelligence and former Russian intelligence....

—Representative Edward Royce (R-Calif.),
 excerpted from “Global Organized Crime,”
 Hearing before the Committee on International Relations,
 House of Representatives, 104th Cong., 2nd Sess.,
 January 31, 1996

Russian firms by increasing nonofficial cover for its overseas intelligence presence. Elements of the foreign intelligence branch of the KGB literally went into business. Although designed for intelligence operations, the overseas business activities of the KGB were exploited by corrupt individuals for personal enrichment, which entailed involvement and collaboration with criminal organizations.

The legacy of the ties between the KGB and ROC-controlled private business is reflected today in the gathering of significant amounts of economic intelligence by the SVR, which is shared with private companies, including some controlled by ROC groups.⁶⁰

A GRU officer told us that these days the last thing the special services are concerned with is disclosure of state secrets—everyone is trying to fish out either lucrative commercial information that could be sold to the subject’s competitors, or to catch the victim of monitoring in adultery or other liberties, for which he could later be blackmailed. In some instances, the “ears” can engage in blackmail on their own initiative with the aim of getting, for instance, a large payoff.

—*Moskovskiye novosti*,
 January 21–28, 1996

The National Counterintelligence Center reports that, even though political and military targets remain important, significant intelligence resources have been shifted to an already extensive economic espionage effort that dates back to the 1970s.⁶¹ R. James Woolsey warns that

60. *Ibid.*, p. 71.

if you run into a Russian wearing a \$2000 suit and Gucci shoes, and he says he is with a trading company and wants to arrange a joint venture with you, in say, oil exports, there is a reasonable chance he is what he says he is, a reasonable chance he's a member of an organized crime family and a reasonable chance he's an SVR officer under non-official cover.... [T]here is also a reasonable chance he's all three and none of those have a problem with that.⁶²

Task Force Threat Assessment: The Dangers of Destabilization in Russia

Even in its post-Soviet manifestation, Russia is a major world power. Its power rests in its land mass, the size and capabilities of its population, the quantity of its nuclear arsenal and its still mighty conventional forces, and, to a lesser extent for now, its participation in international financial markets. The threat posed by OC is, at its roots, the problem that is posed by instability in such a power. The degree of attention that is being directed toward the stability and development of Russia dramatically exceeds that proportionately directed toward many smaller states that are substantially closer to the verge of anarchy.

Western countries are concerned, from the perspective of national security and law enforcement, about the projection of the criminal enterprises bred inside the borders of Russia. For a variety of reasons, Russia is not able to execute the measures necessary to quash them. Turmoil in Russia threatens U.S. national security in three ways: first, by creating an environment in which an authoritarian regime could return to power in Russia and assume a hostile posture toward the West; second, by fostering the increased transnationalization of ROC activity; and third, by destroying the already fragile control over fissile materials, creating the possibility for their diversion to rogue states.

Russian Organized Crime and Destabilization in Russia

The first danger from ROC activity is to Russia itself. As the scenario of a criminal-syndicalist state becomes real, an ever-larger proportion of Russia's budget resources needs to be allocated toward countering ROC. Should the OC problem continue at its current pace, corrupt bureaucrats and organized criminals will divert limited resources through embezzlement.

The problem posed by a Russian criminal-syndicalist state, as outlined above, is primarily one of stability. Politically, the misuse of government structures for the personal enrichment and empowerment of certain individuals leads to disillusionment and a loss of faith among the population at large. Disillusionment in the structures that are designed to look after the welfare of the people leads to a social breakdown. Such a situation exists in Russia today. The mafia already is becoming

61. "Russia's Economic and Intelligence Pursuits," *Counterintelligence News and Developments* No. 3, August 1996. From the World Wide Web.

62. Cited in Bill Gertz, "Economic Spy Blitz by Russia Expected," *Washington Times*, October 22, 1996, p. A1.

a very influential political force in Russia.

Thus, Russia's current social environment fosters a mentality that allows for a segment of the Russian population to look back with misguided fondness to the days of the Stalinesque regime. Overlooking the brutality and inhumanity of Soviet authoritarianism, many Russian pensioners rationalize (what they otherwise would reject objectively based on facts) that, at least under Stalin, people had jobs, Russia was a proud country, and food was on the table. To these frustrated individuals—not only pensioners, but Russians from all generations—the only perceived cost was a “little” of the same “freedom” that has caused all of the problems that exist in Russia today. History shows that, whenever the question arises, Russians inevitably choose security at the expense of freedom.

This criminal situation already has destabilized the Russian state. It has weakened Western investment in Russia and contributed to a situation in which a significant group of “new Russians” has achieved enormous wealth while most others have experienced severe economic hardship under a reforming government. This situation led to a strong showing for the Communist Party in elections to the State Duma in December 1995, a sharp emphasis on a return to nationalism, and a yearning for the “good old days.” In the Duma elections of 1995, the Communist Party walked away with 22.3 percent of the vote and 42 percent of the seats, making it single largest voting bloc in the lower house of parliament. The Communist Party's numbers had improved from the 11.8 percent its candidates had received in the 1993 elections. The Liberal Democratic Party of Russia, which has ultra-nationalist Vladimir Zhirinovskiy as its leader, placed second with 11.2 percent of the vote. The presidential election in June and July 1996 showed the continuing strength of the Communist Party and other parties opposed to reform, particularly in the first round, in which the Communist candidate, Gennadi Zyuganov, lost a tight race with President Yeltsin. (General Lebed, a proponent of strong nationalist policies, finished a strong third.)

The emerging criminal-syndicalist state in Russia creates a yearning for authoritarianism among many Russians. Prime Minister Viktor Chernomyrdin pointed out in October 1996 that

immunity in society to nonconstitutional forms of the resolution of crisis situations is very weak.... [W]e cannot fail to see the attraction to the strong hand and outwardly simple and effective, but essentially power-based and repressive, methods of the solution of the most complex problems.⁶³

In addition, if OC is allowed to reduce standards of living, the populace may begin to associate “democracy” with “crime.” This misunderstanding could create a situation conducive to rule by an authoritarian regime. Vsyevolod Vilchek, a prominent Russian sociologist, has stated that

People don't remember the lines and empty store shelves. But they remember that sausage used to be 2 rubles and 20 kopecks. It's like a man who's gone on

63. Andrey Poleshchuk, “Chernomyrdin and Chubais at the Lubyanka,” *Nezavisimaya gazeta* (Moscow), October 24, 1996, p. 2. FBIS-SOV-96-214-S.

a camping vacation. He forgets the ants that climbed all over him and bit him and how cold he was lying there on the ground. But he remembers all the fish he caught. In the same way, the memory of repression has also faded.⁶⁴

The presence of a criminal-syndicalist Russia is dangerous to the United States not so much because of instability per se, but rather because of the inevitable reaction to this instability by powerful elements of the Russian population, particularly nationalist political groups espousing anti-Western sentiments. Such a movement as the Popular Patriotic Union, having significant factions with ties to the communists, the military-industrial complex, and other supporters of the former Soviet regime, could coalesce around a crackdown on ROC to constitute an authoritarian political alternative to the constitutional establishment.

The major question for U.S. policymakers is and will be “Is Russia a reliable partner?” In the context of a criminal-syndicalist state, it is possible that the Russian electorate could choose an authoritarian leader as president who would attempt to rally the country against both an internal and external threat, as have previous authoritarian leaders throughout history. Such an attempt could be manifested through a crackdown on “bandit” ROC groups and through a more aggressive pursuit of Russia’s national interests both in the “near abroad” and globally. With such sensitive issues as the expansion of the North Atlantic Treaty Organization, the situation in the former Yugoslavia, the emergence of China as a political and military power, and the dual containment of Iran and Iraq all at stake, the latter policy could provoke a confrontation with the West. Such events as the March 1997 Helsinki Summit demonstrate that the United States makes little connection between the emerging criminal-syndicalist state and the future outcome of these issues. If the point comes at which Russia possesses an authoritarian, anti-Western government, then the international community will perceive the absence of Russia as an active partner in world affairs. It is of paramount importance that the situation not degenerate to the point at which Western countries believe they cannot deal effectively with Russia.

The return of an authoritarian government is only one of the possible dangers stemming from destabilization in Russia. Equally threatening would be a Russia that is overly consumed by internal conflict and the corruption of its institutions. With such controversial figures as General Korzhakov elected as members of the State Duma, the line between the state and the criminal groups is disappearing. Corruption in Russia is a threat to the emerging democracies and market economies of Eastern Europe, a key U.S. interest. Throughout the post-Cold War era, U.S. policy toward Russia has been based on engagement and strong support for Yeltsin (since his election). This policy has allowed for dialogue over such issues as Bosnia and the extension of the Nuclear Non-Proliferation Treaty, to name just two of the items that have crowded the U.S.–Russia agenda. To engage Russia on these issues, the United States has had to take a soft line on developments like Chechnya and the shelling of Russia’s parliament in 1993. The willingness of the United States to engage Russia would be sorely tested, however, if the kleptocracy

64. “Once Upon a Ruble, Ah, Life Was Grand,” *Washington Post*, November 12, 1995, p. A1.

continued to expand. Under those circumstances, bilateral actions like those mentioned above no longer could be assumed, and critical U.S. national security interests would be subject to a new set of criminal interests in Moscow. Rather than being based on pursuing traditional national interests, Russian foreign policy would be based on a kleptocratic program of criminal enrichment.

For these reasons, the question of a successor for President Yeltsin becomes crucial. There are indications that the current regime is closing ranks, even with the communists, to ensure that reformers like General Lebed or Boris Nemtsov will not have the opportunity to succeed Yeltsin. The liberal Ukrainian-born politician Grigory Yavlinsky describes the ‘new ruling elite’ as ‘neither democratic nor communist, neither conservative or liberal, neither red nor green. It is merely greedy and rapacious.’ The current regime and its powerful supporters fear the still unknown, but almost certainly radical, reform policies of Lebed, one of Russia’s most popular political leaders. The outcome of presidential succession is very likely to determine Russia’s future—whether status quo, authoritarian, or reformist.

Western countries will become increasingly alarmed at the prospect of a nuclear power slipping into a situation in which criminality reigns, Western institutions are victimized, and military weapons are sold to the highest bidder. Russia’s sale of nuclear technology to Iran is only an example of this type of self-interested conduct.

Severe conditions in the Russian armed forces are also adding to the dangers exploitable by ROC. Lack of pay for months on end, lack of food, horrible living conditions, officers’ moonlighting to feed their families, startling rates of suicide in the officer corps, collapsed morale—all of these trends eerily recall the implosion of Russia’s Imperial Army in 1917. Former minister of defense Rodionov has expressed serious concern that Russia’s armed forces are in a free fall and just a short distance from total disaster. Responsible observers inside and outside Russia echo Rodionov’s fears. If Russia’s strategic nuclear forces are facing these same phenomena, the possibility grows that criminal penetration will become deeper, and that fissile materials will migrate into the wrong hands. Worse still is the prospect of strategic, nuclear-armed missile systems in the hands of a disintegrating military subject to criminal control. The implications of such a development are chillingly obvious.

It bears noting once again: If the West is forced to respond to such a situation, nationalistic and authoritarian leaders in Russia may come to power by exploiting Russian feelings of ‘humiliation’ at the hands of the West and by promising to return Russia to its former superpower status. Left unchecked, a criminal-syndicalist state will emerge in Russia that is likely to lead to the reemergence of an authoritarian or communist regime. Because Russia still retains, despite its setback in Chechnya, a large and dangerous military equipped with over 20,000 nuclear warheads, a return to East–West confrontation remains highly undesirable. ROC is therefore not solely a law enforcement issue, but a significant national security priority as well.

Destabilization in Russia: Entrenching Transnational Russian Organized Crime Activity

Destabilization in Russia weakens the country's legitimate economy and state while simultaneously strengthening its criminal elements. With a weakened domestic capacity to counteract their activities, ROC groups can strengthen their operations abroad. Economic destabilization further strengthens the hand of criminal organizations in Russia. Lacking confidence in Russia's financial systems, Russians turn to the black market to acquire foreign hard currency. Criminal groups are the main source of foreign hard currency, bringing some \$40 billion in high-denomination U.S. bills into Russia in 1994 and 1995.

Destabilization also benefits ROC groups because, with a criminal-syndicalist state fully in place, ROC groups would be less concerned about transnational efforts to combat their activities. Mutual legal assistance, the sharing of intelligence, and joint operations rely on a cooperative Russian partner.

ROC groups operating in Western Europe and North America represent a significant challenge to law enforcement. As they conduct their criminal activities, already depleted government resources are drained further, particularly in Western Europe. These costs are passed on to taxpayers, and they compound the increasing social costs of heightened ROC activity—narcotics trafficking, the smuggling of migrants, auto theft, and financial crime—that lead to reduced public safety in each country. Unabated, these costs have the potential to create popular pressure to crackdown on ROC groups, the legal and political effects of which could cause disputes between neighboring countries and eventually between the West and Russia. As Western law enforcement authorities link ROC activity to a Russia lacking control over flourishing OC groups, Russia subsequently appears to be a bad neighbor, a perception that can lead to clashes over trade and immigration policy. These disputes can reshape regional policy and international relations in an adverse manner.

On the micro level, ROC is a threat both to Americans and to U.S. interests operating in Russia for reasons that are immediately obvious (extortion, kidnapping, murder, and so forth). Furthermore, ROC is a clear law enforcement threat because it has shown an eagerness to operate inside the borders of the United States (the most lucrative area worldwide for international OC) and to cooperate with other transnational criminal groups.

As the level of criminal sophistication rises, so does the potential for criminal activity. Higher rates of crime would cause law enforcement budgets to be sapped as more resources are diverted to combat ROC activity at the expense of other forms of civic responsibilities. If law enforcement efforts are unsuccessful, ROC activity in the United States could precipitate citizen-generated political pressure on the government to address the issue at a government-to-government level, with possible effects on popular and congressional support for critical assistance and cooperation programs that address areas of mutual concern.

The FBI's Organized Crime and Drug Section has taken the lead on the U.S. response to ROC activities in the United States. To date, the FBI has established at least two ROC-specific squads (one in New York, the other in Los Angeles). The

FBI is joined in this effort by Customs, Secret Service, the DEA, and virtually every other federal law enforcement agency or department. The FBI and Customs now have Legal Attaché and Customs Attaché offices, respectively, at the American embassy in Moscow.

The task force notes, however, that agencies of the U.S. government have failed to respond in unison to the issue of ROC. Although both intelligence agencies and law enforcement are “working the issue,” the U.S. government has not designated it a national priority or devoted sufficient resources to the problem. Global crime is likely to remain a threat to the United States in coming years. The task force believes a need exists both for a unified response to this problem and for improving the coordination of law enforcement and intelligence activities overseas. The task force draws attention in particular to the need for an adequate definition of the intelligence requirements and priorities that will facilitate identifying and neutralizing the threat of ROC. Finally, the task force believes that the U.S. government needs to address this problem aggressively and creatively and with enough resources to resolve the issue.

Destabilization in Russia: Weakening Safeguards over Fissile Materials

One potential threat that concerns the Russian Organized Crime Task Force is that, through the activities of ROC, nuclear materials could be brought to the United States via “rogue” states or substate and nonstate actors for the purposes of terrorism. The task force also recognizes the emerging threat brought about by the interaction between a deteriorating standard of living among most Russians and vulnerable nuclear materials sites. In an attempt to escape economic hardship, workers at a nuclear power plant, or guards at a nuclear weapons facility, could allow nuclear materials to come into the possession of terrorists or rogue states that are inclined to use such materials against the United States.

The unrest among nuclear power plant employees was illustrated vividly in St. Petersburg in December 1996 when over 400 workers went on strike over unpaid wages. A dozen employees occupied the control room of the plant, threatening to shut down the energy supply for the city if wages were not paid. The Russian government quickly acquiesced in this case, but workers at dozens of other, more isolated facilities remain unpaid and unhappy. Until conditions at these facilities—including both physical and economic security—are improved, the possibility of an illicit transfer of fissile material remains dangerously high.

The task force believes that conditions in Russia and the transnational character of ROC groups, coupled with the minimal or poor security found at most storage facilities, create an environment in which fissionable materials could be stolen and smuggled out of Russia. FBI director Louis Freeh has expressed publicly his concern that Russian gangs are “aggressively looking to buy and sell nuclear materials.”⁶⁵ The task force notes that, to date, these thefts primarily have involved

65. “FBI Director Sees Parallel Between Russia Now, Chicago Then,” *Los Angeles Times*, February 26, 1994.

materials below weapons-grade quality by petty criminals who think there is a market for them.⁶⁶ The potential access to weapons of mass destruction (whether nuclear, biological, or chemical), however, is a major factor in distinguishing ROC from other criminal threats throughout the world.

As the U.S. and other Western governments learn more about existing Russian safeguards over various weapon systems and fissile materials, and, indeed, as they assist Russia in improving these safeguards and controls in some cases, there is the real danger that this process, in fact, will mislead them to the true degree of the danger present. The very experience of the United States leads it to mirror-image both the intent and effect of such controls and to have a degree of confidence and comfort that is not warranted.

During the height of central control over the military in the Soviet era, the most sensitive and secret of military materials regularly made their way to the West, where they were exploited by military analysts. The materials exfiltrated from the Soviet Union ran the gamut: from a small vial of biological weapons material to multiple aircraft and tanks. Although Western intelligence services rightfully claim some of the credit for orchestrating these acquisitions, they were possible, in fact, only because corrupt Russian and East European military personnel made it that way. Sometimes they played active roles as facilitators; at other times, they were required only to turn a blind eye. And they did it not for ideology, but in order to earn money or obtain other advantage.

If these weapons and materials could go missing in significant numbers at the behest of Western governments at the height of Soviet authoritarian control and KGB/GRU power, it must be close to virtual certainty that ROC would have little trouble finding willing military personnel who would provide, for example, a man-portable nuclear mine, fissile materials, or chemical or biological weapons for a “consideration.”

A U.S. Department of Energy report on nuclear smuggling assesses the threat as follows:

The risk of criminal proliferation exists, particularly in terms of dual use items—hafnium, zirconium, and heavy water—and technical expertise. The potential for export control abuse is exacerbated by massive stockpiles of weapons grade material, underemployment of experts, inadequate facility safeguards, demands for hard currency, and some governments’ disinterest in controlling nuclear-related products.

The legitimate need for occasional transport of nuclear materials from facility to facility inside Russia provides a channel for covert diversion of weapons-grade materials. A lack of safeguards and precautions in these smuggling enterprises risks potential damage to the health of people who innocently may come in contact with the materials. In one case of reported smuggling, 5.6 kilograms of plutonium—

66. The task force notes, however, that five incidents involving weapons-grade material occurred in 1994. For further details on nuclear smuggling, see *The Nuclear Black Market*, Report of the CSIS Global Organized Crime Project’s Nuclear Black Market Task Force (Washington, D.C.: Center for Strategic and International Studies, 1996).

239 (enriched to 99.75 percent purity) was discovered unprotected in the garage of a counterfeiter in Tengen, Germany. In another case in Lithuania, Vilnius police discovered a large quantity of beryllium in the basement vault of a bank. Furthermore, several of the 11 publicly reported smuggling cases that have occurred since the breakup of the Soviet Union have involved the attempted sale of non-weapons grade materials (such as those produced for hospital or energy use) as weapons-grade product.

The lack of reliable statistics further compounds the difficulties of dealing with the problem of weapon smuggling. By 1993, Germany had arrested more than 100 people for smuggling nuclear components from the Soviet Union. Such statistics as these are suspect because they do not denote the quality of the material, the sophistication of the smuggling operation, or the level of ROC involvement. Although the task force sees little or no evidence of formal or prolific OC involvement in the trafficking of fissionable material, this does not mean the current situation could not change. The involvement of groups that exist today, especially those with established transnational aspirations, only increases the danger.

Since the demise of the Soviet Union, the border guards in Central Asia have earned a reputation for being notoriously corrupt and ineffective. The task force is of the opinion that the relatively unrestricted borders of Central Asia present a likely transit point for an organized effort to smuggle weapons-grade materials from Russia. Reports of at least four incidents of Middle Eastern buyers visiting nuclear weapon sites in former Soviet republics prior to denuclearization illustrate the vulnerability of these sites and their guards. In July 1997, two Lithuanian nationals were arrested in Miami after offering to sell tactical nuclear weapons to undercover U.S. Customs agents.⁶⁷ These dangers reinforce the notion that, unless more is done, the sale of a nuclear weapon (or a significant quantity of weapons-grade material) no longer will be a matter of speculation.⁶⁸

67. David Lyons, "Two Men Charged in Nuclear Arms Sale," *Miami Herald*, July, 1, 1997, p. A1.

68. For a discussion of these incidents, see Mullen and Raine, eds., *The Nuclear Black Market*, p. 15.

Prognosis and Recommendations: How Should Russian Organized Crime Be Addressed?

You announced, amid much publicity, the start of a fight against organized crime in the country. To that end, you gave enormous powers, going beyond the bounds of right and the law, to the power structures. The result? Criminals still roam free, while law-abiding citizens, without having gained security, are forced to tolerate the tyranny of people in uniform into the bargain.

—From the resignation letter
of Human Rights chief Sergey Kovalev
to Russian president Boris Yeltsin,
January 1996

Prognosis

The anticrime program of the Russian government has been a failure. Russian society is undergoing a tectonic upheaval in the transition from a command economy to private ownership. The government has had neither the resources nor the will to alter the conditions that support OC. In his 1997 State of the Federation address, President Yeltsin admitted that “we have declared war on economic crime and corruption but have not started it for real.” Regrettably, the anticrime elements within the government find themselves isolated and too often have been forced to contend with corrupt officials within the government before being able to take the battle against OC to the board rooms and the streets. There are elements within and outside the government that are willing to take draconian measures against OC, but the possibility of repression raises very serious civil rights issues. In short, at this time in its history, Russia continues to muddle through, and its ultimate destination remains an enigma. Meanwhile, ROC benefits more from law enforcement as it is currently practiced than legitimate business does.

With these concerns in mind, the reader is left to wonder whether corruption—the crux of the Russian organized crime problem—ever can be overcome. Certainly, the Russian people, many of whom are suffering and disillusioned with the terrible price they are paying for political freedom, a market economy, and an unfamiliar concept called “democracy,” need the support of the United States and other countries in the battle against ROC. Western states can and must assist Russia with the modernization of its law enforcement apparatus and the alignment of its judicial system to make them more relevant to democratic processes and an open, market economy. Although support for reform in these areas is important, U.S. public diplomacy should be used to impress upon the Russian people the differences between a democratic market economy and the criminal-syndicalist state in which they currently live. Public diplomacy should outline the steps that are necessary to combat OC and mitigate the role of corruption in the economy.

Only Russia itself, however, can deal with the pervasive corruption on which ROC feeds. It will take more than a committed executive, legislature, and judiciary. A solution will demand honest and dedicated leadership in the military, security, intelligence, and law enforcement communities. More than anything else, it also will require that the wealthy businessmen who, until now, have been an essential part of the problem become an essential part of the solution. These individuals must realize that the capital flight for which they are largely responsible must be reversed and reinvested in Russia; that the nucleus of honest and competent leaders in the FSB, the *militsiya*, the MVD, and the military must be supported and enlarged; and that corruption at all levels of government must be rooted out.

These same business leaders should recognize that, in the absence of action, the testament that they otherwise would leave will be something better suited to a fourth world kleptocracy in which the currency is the bribe and justice is the kickback. Their legacy would be economic chaos and a destabilized nuclear superpower with a discontented populace ripe for takeover by radical political extremists. Ultimately, the criminals and oligarchs themselves may throw their support behind a more effective anticrime program. Younger, healthier criminals who are more prone to violence can flourish in the current environment of seldom-enforced laws and underfunded law enforcement and overtake the current criminal class. In short, these individuals finally must recognize that a stable, prosperous Russia—that is, one not dominated by criminal forces—is in their own best interests.

Russia’s Campaign Against Russian Organized Crime

Since the end of the communist era, the Russian government has been faced with a rapid proliferation in the power and activities of the criminal organizations. The first attempts to address the problem were independent of any concern expressed by foreign governments. In more recent times, the Russian government has reacted both independently and in concert with foreign governments to quash OC groups. Regrettably, ongoing problems with corruption at the levels of both policy

planning and implementation within the Russian government have meant that both domestic and international efforts to come to grips with the ROC problem often merely go through the motions of an effective response without any genuine, meaningful action.

As yet, the Yeltsin government has not been effective in halting the corruption that is rife within the administration. Almost all major government agencies and personalities have been linked in some way with organized crime or corruption. Allegations and evidence of bribery touch very senior levels of the regime, at which control of the entire process of privatization resides. Many of these senior individuals are involved in some manner with the financial and industrial businesses to which reform has given birth.

In general, the Russian government's anticrime program, although laudable in specific instances due to the dedication of certain individuals, has been unsuccessful. Russian society is undergoing a tremendous upheaval marking the transition from state ownership to privatization. The government does not have the resources to alter the conditions that support OC. So long as wages for the bureaucracy hover so close to the poverty level, no amount of legislation or enforcement will give the bureaucrats the moral strength or economic incentive necessary to change the system. Many law enforcement elements suffer, too, from low wages and inadequate equipment. Pollster Alexander Olson, director of the Public Opinion Foundation, says his surveys show that 75 percent of the population have felt the impact of delayed wages and pensions, and their discontent with the government runs deep. Millions of Russians are paid months late, if at all.

Legislative proposals to curb rampant criminality have been long discussed within the State Duma; little, however, has been accomplished. Law enforcement has been weak. As a result, private guard and security firms, as well as private investigation services, have flourished. Even the oblast *militsiya* have entered into private arrangements to protect the interests of private businesses. For these reasons, it comes as no surprise when the department chief of the Economic Crimes Division of the MVD, Colonel Aleksandr Mordovets, admits, "Today's government lacks the will to fight organized crime. I am putting it very mildly."⁶⁹ The payment of "protection money" to criminal groups has proliferated.

No civil system has risen to match the political, economic, and social changes that have occurred. The legal apparatus has not kept pace with the upheaval that came with the collapse of communism. The legal system has yet to implement a method to protect or resolve private property issues. As a result, criminals solve business disputes through kidnappings or contract killings. Russia must build a legal foundation out of a historical vacuum for a developing market economy that is penetrated and controlled by OC groups and then put the law into practice—despite rampant corruption among courts and legislators. It is a fundamental point that eliminating corruption within Russian legal structures will provide a key solution to the problem of ROC.

69. Aleksandr Kakotin, "Triumphant Procession of Crime," *Argumenty i fakty* (Moscow) No. 30, July 1996, p. 8. FBIS-SOV-96-160-S.

Without alternative methods for resolving disputes, some Russians choose violence for settling their conflicts. In so doing, Russians choose ROC groups to fulfill roles traditionally undertaken by the state. According to Aleksandr Gurov, formerly of the Organized Crime Unit of Russia's MVD, "It is no secret that even in law enforcement agencies the victims are sometimes told: Talk to the mafia."⁷⁰

Appropriate laws must be enacted and uniformly enforced if the country is to regain the confidence of its people and the activities of organized criminal and corrupt bureaucrats are to be addressed effectively. To forestall the emergence of a criminal-syndicalist state, honest officials within the Russian government should examine the anticrime measures that already have been implemented and the reasons that so many of these measures have failed.

Anticrime Decrees in the First Yeltsin Administration

In March 1995, President Yeltsin met with his Security Council to hear reports on ROC from the MVD, Federal Counterintelligence Service, and the Office of the Prosecutor General. The Security Council determined that little progress had been made against crime. The situation was so severe, it concluded, that it had become a threat to national security. Law enforcement was ineffective, the Security Council said, and legislators had been too slow in responding. The Security Council called for closer coordination among judicial bodies, the Office of the Prosecutor General, MVD, tax police, Federal Counterintelligence Service, and other state organizations. President Yeltsin issued instructions to put this program into effect and also ordered more funding for it. Since that time, however, there has been no real evidence that the Russian government truly has resolved to push this policy forward.

Russia's recent efforts to attack the OC problem have centered not on developing a legislative foundation for a market society, but rather on giving more power to the government to combat the activity. After all, anticrime edicts and rounding up "suspicious-looking" individuals and getting them off the streets are easier and more obvious measures to demonstrate a crackdown on crime to the public. Moreover, Russian officials are reluctant to embrace a solid legislative foundation because of the overwhelming mistrust of Russians of the market, demonstrated by its repudiation in the 1993 and 1995 parliamentary elections, and its very association with OC. In early June 1995, President Yeltsin promulgated his own anticrime edict, which granted the police broad authority to search premises, seize documents, investigate finances, and hold, for up to 30 days, people suspected of OC activity. This decree drew extensive criticism from the left and the right, and from Yeltsin's friends as well as his political enemies.

Yeltsin's edict followed a similar one issued in June 1994. In an anniversary assessment, Mikhail Yegorov, at the time first deputy of the MVD, noted that the document allowed the government to stop the growth of criminal groups. He continued to say, however, that he was not satisfied with the participation of other areas of the law enforcement and judicial system. He particularly singled out the

70. Mark Deych, "Aleksandr Gurov: 'Mafia Money Should Work For the State,'" *Moskovskii Komsomolets*, November 10, 1996. FBIS-SOV-96-237-S.

courts for granting bail to people who did not merit it.

The 1995 decree was followed in late June by Yeltsin's signing a provision on the FSB in which one of its main tasks, combating OC, was reaffirmed. In turn, on July 5, the State Duma approved a new law that expanded the number of government agencies that could conduct investigations. The law stipulated that customs, tax police, and government security agencies (which were not identified any further) were to have investigative powers just like the MVD, FSB, SVR, and border services. Press reports indicated there also were amendments to safe guard civil rights, but these measures have not been enacted yet.

On July 12, 1995, the State Duma passed the law, "On Fighting Organized Crime," which contains 60 articles and provides definitions of organized crime and criminal groups. The new law (which appears to be based on Yeltsin's edict) stipulates that leadership of organized criminal groups is punishable with 10 to 15 years in prison. A government official is to be imprisoned for a term of 15 to 25 years for similar actions. Participation in an OC group is to be punished with 3 to 7 years in prison.

President Yeltsin signed this legislation into law on June 13, 1996, prior to the first round of Russia's presidential election. As of spring 1997, however, little is known about the specifics of its implementation. The existing laws for cracking down on crime and corruption are in place; however, cases must be brought to trial and perpetrators must be prosecuted. These actions require the creation of strong and independent courts.

The Lebed Anticrime Decrees

This is my fundamental stand: everything must be based on law, whether some people like it or not.

—General Aleksandr Lebed,
in his inaugural press conference
as national security chief,
July 11, 1996

The emergence of General Aleksandr Lebed as a major political figure in Russia heartened some observers of the ROC phenomenon, while others viewed his ascendance and subsequent ouster as confirmation as the latest in a line of scapegoats created by President Yeltsin to take the blame for the persistence of OC and official corruption. It is clear, however, that Lebed's rise has uprooted the "party of war" inside Yeltsin's inner circle. As part of his agreement to support Yeltsin in the presidential campaign's runoff, Lebed gained the position of Security Council secretary. His support for Yeltsin also was conditional on the ouster of First Deputy Minister Oleg Soskovets, Presidential Security chief Aleksandr Korzhakov, and FSB chief Mikhail Barsukov. Yeltsin complied in the wake of a bizarre scandal on the eve of the June 1996 election that involved rumors of a possible military coup and a plot to cancel the runoff at the last minute.

Prior to his dismissal, Lebed moved swiftly to enact his promise of rooting out corruption in the military by firing seven generals, all supporters of deposed minister of defense Pavel Grachev. Critics suggested, however, that the gesture was empty, and that it was unlikely that the generals would be brought to trial.

A new statute on the Security Council granted its secretary new powers, including:

- the power to propose to the president that any high-ranking official whom he considers involved in security questions be held accountable;
- the power to gather and provide to the president information on candidates recommended for appointment to high-level state positions; and
- the power to review draft presidential decrees submitted to the Security Council with other members of the council.⁷¹

In another assault on the OC problem, Lebed shepherded a decree through President Yeltsin's inner circle that launched a campaign against corruption in the Moscow area. Part of the campaign included the initiation of a series of "sting" operations against Moscow-area crime lords. The announcement of the decree coincided with a string of bomb attacks in Moscow. Speculation among Russian officials quoted in the Russian press suggested that the bombs may have served as a warning to Lebed from OC chiefs that his campaign against their empire would not go unchallenged. Since Lebed left office, the campaign seems to have lost some steam.

The July 1996 decrees include provisions for implementing the following anticrime edicts:

- 19,000 additional personnel for "rapid deployment units" on the streets;
- 1,000 extra men for the special tax police;
- 650 new judges for Moscow's criminal courts, with their salaries to be doubled;
- authorization for the police to confiscate assets and cash from criminal "front" companies and add the proceeds to police funds;
- the temporary removal of officials suspected of corruption from their offices pending completion of investigations;
- the creation of a federal protection program for witnesses, judges, and prosecutors; and
- the authority for the mayor of Moscow and for the governor of the Moscow region to "introduce additional measures" to enforce law and order in separate territories (that is, at the oblast and regional levels).⁷²

71. See *Current Digest of the Post-Soviet Press*, August 7, 1996. From Lexis-Nexis.

72. See *Inter Press Service*, July 31, 1996; *Moscow News*, July 18, 1996.

By taking these initial steps against ROC, General Lebed drew the wrath of some ROC groups and their supporters inside the Russian government. His failure to steer his policies through the uncertainties of the Kremlin and his subsequent removal was due to resistance to these initiatives, particularly from Prime Minister Chernomyrdin, who, along with Yeltsin's chief of staff, Anatoly Chubais, was threatened by a shift in power to the Security Council. Shortly after the early Lebed initiatives, Yeltsin rebuked his security chief in a series of moves designed to placate Chernomyrdin, a former chairman of Gazprom, Russia's largest business conglomerate. Lebed has hinted that, in a contest for the presidency, he may try to exploit Chernomyrdin's own alleged associations with OC.

The July 1996 anticrime decrees, along with the passage of a new criminal code and a program directed against computer crime, are evidence of the government's determination, however weak, to take serious measures against OC. Even so, the legislation appears to attack straight criminal activity only. It also appears to address only the issue of corruption without taking into account the underlying political, social, or economic issues. The MVD's Operation Clean Hands and the FSB's certification program for honest officers (which tests the integrity of officers by having MVD agents in the guise of gangsters offer them bribes) are promising programs for eliminating corruption in law enforcement.⁷³ With the passage of time, the success of these recent initiatives will become easier to gauge. The Nemtsov-led initiative to end corruption within the inner circles of the Russian government itself must succeed if these new anticrime initiatives are to have any hope of political support and consistent enforcement. The removal of the so-called party of war—Korzakov, Barsukov, and Soskovets—is an encouraging step in this direction, but the three have been replaced by individuals who are similarly tainted by allegations of connections to ROC. Serious doubts also remain within the Office of the Prime Minister. Also, although unlikely, a return to power by the "party of war" after an appropriate period of disgrace cannot be overruled, considering the strong personal ties between President Yeltsin and these men.

The two anticrime programs outlined here have become largely irrelevant by now except to serve as a reminder of the reality that, in Russia, the best intentions in the struggle against crime have been compromised by a constant series of problems. Investigations triggered under new laws are thwarted by corruption at high levels; additional allotments of personnel go unfulfilled because of a lack of law enforcement equipment and poor recruitment; poor morale and low wages plague honest law enforcement officials; and financial disclosure laws are circumvented, and capital flies to offshore havens.

There certainly have been problems with the responses of the Russian government to date. The stymied legislation noted above is just one example. It is important to note that certain elements of the Russian government have made sincere and concerted efforts to address this problem. The efforts of these groups, although not necessarily successful, should be commended and encouraged. In many cases, the

73. Natalya Nikulina, "The Man from Lubyanka: Exclusive Interview with FSB of Russia Director Colonel General Nikolay Kovalev," and "Phone Interview with Anatoly Sergeevich Kulikov, Russian Minister of Internal Affairs," *Trud* No. 7 (Moscow), August 9, 1996, pp. 4–5.

individuals leading the efforts have risked their own personal safety and careers and have acted patriotically in the interest of their country. Still, a vacuum at the leadership level—whether the result of corruption or the president’s ill health—remains, and it sorely needs to be filled.

The Russian Organized Crime Task Force believes that significant progress, much of it Russian-inspired, has been made toward addressing certain facets of ROC. Examples include the following:

- ❑ Coordination and cooperation have increased among law enforcement agencies in Russia, Germany, Canada, the United Kingdom, and the United States;
- ❑ Russia has been active in soliciting and accepting the assistance offered by other countries for help in developing a legal infrastructure;
- ❑ MVD officials are speaking publicly about ROC, and President Yeltsin has given high priority, at least in his public pronouncements, to government-wide anti-corruption and anti-OC programs; and
- ❑ Recent Russian legislation has addressed the issue directly.

Recommendations for the U.S. Government

As the Russian government struggles to enact and enforce its own anticrime program, the U.S. government can take steps to mitigate the risks to public safety and national security posed by the ROC phenomenon.

The Russian Organized Crime Task Force recommends the following options, which are designed to give policymakers a baseline from which to address the threat posed to the security and economic well-being of the United States.

Define ROC and Broaden the Base of Knowledge

The task force believes it is necessary to broaden the base of knowledge that currently exists about ROC. A significant impediment to this goal is the lack of a definition to which U.S. and Russian law enforcement can subscribe and is readily useful to policy- and decision-makers. Once a definition is agreed, efforts should be made to reconcile the statistics that are available on the issue and to develop a method of tracking the progress made by Russian and U.S. law enforcement agencies. Statistics should be kept in a central location in Russia. The task force recommends that the FBI designate statisticians from the Office of Uniform Crime Reports to train Russian criminal statisticians of the MVD. It also recommends that this training be accomplished in both Russia and the United States and that it be designed to enable the Russians to compare their statistical records with the statistical models of either the United States or Interpol.

The task force sees a fundamental challenge in defining what the U.S. law enforcement and intelligence communities can do to combine their respective expertise on ROC issues. With coordinated collection of intelligence on ROC activities (in both the United States and Russia), U.S. policymakers can address the

issue promptly and with adequate information. As a step in this direction, the FBI's Organized Crime and Drug Section has established at least two ROC-specific squads (one in New York and one in Los Angeles). The FBI is joined in this effort by Customs, the Secret Service, DEA, and other federal law enforcement agencies. Ties among members of the U.S. intelligence community must be established and exploited with regard to ROC.

In addition, cross-jurisdictional cooperation must be enhanced. Information must not be withheld from parallel investigations. Informal relationships among law enforcement entities must be structured and formalized.

Encourage the President to Recognize the Threat

The president of the United States should issue the appropriate presidential document to the effect that "The proliferating activities of Russian and Central Eurasian organized crime elements constitute a danger to the interests of the United States."

A major impediment to action by the U.S. government is the lack of uniform federal recognition of ROC as a national security concern. Issuance of the declaration will necessitate governmental attention, and, if required, additional resources directed toward understanding and mitigating this problem.

The Aspin–Brown Commission, in its report on U.S. intelligence in March 1996, recommended the establishment of a Committee on Global Crime to be located within the National Security Council. This committee, according to the Aspin–Brown Commission, should be formed to counteract the threat posed by OC to national security and should assist in solidifying the relationship between intelligence and law enforcement. The task force concurs with this recommendation, noting that much remains to be done in the area of strengthening the relationship between intelligence and law enforcement, particularly with regard to defining requirements and roles. The task force believes that aggressive and prompt action needs to be taken so that "lead" information can be developed and acted upon.

Continue and Enhance Training Programs

The task force supports the current U.S. government policy of sending law enforcement personnel to train specialists in Russia and other countries on current law enforcement methodology, principally through the International Law Enforcement Academy in Budapest, Hungary. Russia has a great need for an effective law enforcement structure at all levels. In addition, the potential for receiving candid, accurate information will be increased tremendously by developing personal relationships with Russian personnel. The task force also encourages the expansion of this type of training program for prosecutors, forensic scientists, and other judicial personnel.

The United States should increase the amount of law enforcement equipment, training, and funding available to Russia as elements of the U.S. foreign aid program. This aid should be provided in a manner similar to the Nunn–Lugar program, in which Russia must spend the majority of the allocated funds to acquire goods and services from the United States. In this manner, the U.S. government would be providing not only the assistance, but also outlets for U.S. suppliers—all

while reducing the probability that the aid money will be diverted for illicit schemes.

Insulate Aid and Other Transfers from Russian Organized Crime

Although it acknowledges the need for U.S. aid and multilateral loans to foster investment and economic reform in Russia, the task force recommends that greater caution be used to insulate the funds from corruption and OC in Russia. A careful accounting of funds sent to Russia should be implemented by both internal U.S. government inspectors and external auditors. Such stringent measures are necessary because U.S. aid, loans, and export credits must not be diverted to OC elements. Misappropriation of U.S. funds into the hands of criminals and corrupt officials not only weakens the policies and programs the funds are intended to support, but also fuels criminal enterprise and undermines the U.S. goal of combating ROC. A major step in limiting criminal misappropriation would be strengthening the nonfungibility of loans, thus ensuring that aid money cannot be transferred to nondesignated purposes. These measures should be coordinated carefully with such multilateral lenders as the World Bank and the International Monetary Fund, as well as with other governments.

Coordinate with the Group of Seven

Steps by the Group of Seven (G-7) to combat ROC have focused primarily on strengthening the coordination of law enforcement against money laundering and narcotics trafficking. There is little evidence, however, that G-7 governments have linked the battle against ROC with the broader issue of fostering political and economic reform in Russia. The United States therefore should initiate a summit-level discussion of the threat posed by the emerging criminal-syndicalist state in Russia and work to coordinate diplomatic and economic—not merely law enforcement—measures to combat ROC. At the diplomatic level, the United States should seek to ensure that all G-7 members are sending a consistent message to the Russian government in both their public and private diplomacy in which they emphasize the link between OC and the struggle of political and economic reform in Russia. The diplomatic message must be echoed in commercial and economic policy, too. G-7 countries should work to insulate aid, and they also should adopt investment rules, such as restrictions on export credits, to ensure that their national firms do not do business with OC-controlled businesses in Russia.

Support Business in Russia

The task force believes the United States must provide U.S. businesses with an alternative to paying extortion to Russian criminal elements. The government should consider increasing the resources for the Overseas Security Advisory Council, Regional Security Office, FBI Legal Attachés, and Department of Commerce to provide support and advice to businessmen who are likely to find themselves in such a situation. This development also would enable the FBI and other government authorities to keep statistics on extortion against U.S. citizens and to follow

up on cases with Russian law enforcement. Furthermore, the provision of up-to-date information on the ROC threat will provide a substantive tool to businessmen seeking to inform themselves before they are targeted. The task force suggests that the Russian government be consulted on this process to avoid the perception that the United States is trying to hamper investment in Russia by using scare tactics.

Create a Shared Public Database

The task force notes that significant information is currently available in the public domain about ROC groups, individuals, affiliated companies, and transnational connections. It recommends a systematic exploitation of open sources and associated vigorous document exploitation programs as an aid to understanding and assessing developments in crime in Russia. Efforts should be focused on the areas of personality, group structures, types of criminal activities, areas of operation, international linkages, trends, and so on, similar to efforts in other national security research and analysis programs. This information should be collated in a manner to make it useful to law enforcement and businesses.

The task force recommends that the U.S. government create an unclassified database of information on these entities, and that this database be designed for the specific purpose of becoming a resource tool for law enforcement, intelligence agencies, and U.S. businesses. This database also should be available for use at U.S. diplomatic facilities in Russia and through either the Foreign Commercial Service of the Department of Commerce or the Overseas Security Advisory Council of the Department of State in the United States.

In this time of budget austerity, the U.S. government should contract out the collection of open-source information from the Russian press, European media, and other sources for inclusion in the database. Among groups with the ability to act as an efficient contractor are think tanks and such professional security organizations as the American Society for Industrial Security.

The database should use open-source information, and all material should be accompanied by citations so that users can conduct further research and verify search results independently.

Expand Existing U.S. Government Database Tracking to Include Organized Crime Entities

The task force recommends that a government-only database be established to provide information—including that of a classified nature—that would be of assistance to U.S. government personnel, particularly in the issuance of visas for travel to the United States. In turn, steps should be taken to share the information in the database with appropriate foreign countries and to set up a similar international database. This move would facilitate a worldwide approach to the problem of ROC and have an immediate impact on its transnational character. The task force believes that this database, which would be similar to that now utilized in matters of foreign counterintelligence and terrorism, would provide a valuable tool in keeping people involved in ROC activities out of the United States.

Professionalize the Russian Bureaucracy

One of the most significant findings of the Russian Organized Crime Task Force is that a major impediment to addressing OC is the level of corruption that pervades Russia's bureaucracy. Both Russian news reports and individual testimony allege that most members of the Russian bureaucracy can be bought for the right price.

The task force believes that, in order to reduce the prevalence of corruption in Russia's government, it is necessary to professionalize the bureaucracy. On the most basic level, this means that managers and factory owners must give a high priority to administrative functions (such as paying salaries on time). Professionalization involves a unified approach toward giving employees better salaries and incentives and then holding them accountable for their work product. As salaries increase and people are held accountable, their susceptibility to taking payoffs is reduced. At the same time that the state employees are reorganized, comprehensive government-wide ethics guidelines and anticorruption efforts must be initiated. The most important element of any approach of this type is currently absent in Russia: there is no senior political leadership on the issue. Although U.S. and Russian leaders currently speak publicly about the issues facing Russia's policymakers, no one has focused the populace on supporting the changes necessary to address the issue yet. The task force perceives that there is a great deal of talk about corruption in Russia, but very little concerted effort to do anything about it.

The task force recommends that programs similar to the U.S. Department of Commerce's Special American Business Internship Training Program (SABIT) be continued and expanded. Such programs facilitate the training of Russian businessmen in American business practices. Programs similar to SABIT, but with a focus on the training of Russian federal and municipal government officials, are currently in place, and many are presently being run by subcontractors and funded through the National Endowment for Democracy, the Department of Justice, and the Agency for International Development (USAID). The task force urges Congress to continue and even to expand these programs.

Regulate Industry, Business, and Trade

OC groups often hide their activities under the guise of legitimate businesses and victimize companies that are unaware of the local business environment. The task force believes that the ease with which ROC groups are able to infiltrate legitimate businesses is increased by the Russian government's lack of reasonable regulation of private industry. The task force therefore recommends that the Russian government establish uniform business operation regulations, professional standards for certain industries, and requirements for the issuance and regular renewal of business licenses and other permits.

Establishing standards for industry regulation will diminish the ability of criminal groups to take advantage of a system that allows for "creativity" in the conduct of commerce. The task force also agrees that the existence of enforced standards that apply to every citizen and foreign company will diminish the latitude through which certain bureaucrats currently are able to manipulate the government for their own enrichment.

In this regard, private enterprise training institutions in the United States could be asked to show how well government and industry can work together. This effort naturally would involve developing and/or expanding training programs with this goal in mind.

Strengthen the Legal Infrastructure in Russia

It is incumbent upon the Russian government to encourage the development of a formal and robust legal infrastructure and to ensure that it is applied uniformly and publicly to all citizens, foreigners, and companies operating in Russia. The lack of such an infrastructure has allowed criminal groups to escape due process of the law and legitimate businesses and innocent citizens to be victimized. It also provides a major source of discouragement to business development and foreign investment in Russia.

Foreign companies must be assured that they will have legal recourse if anything goes wrong while they are in the process of conducting legitimate business in Russia. Such incidents as the collapse of Vneshekonombank, a case in which millions of dollars of foreign investment capital were seized by the Russian government without due process, serve only to discourage foreigners from investing in Russia. The absence of an established legal infrastructure also creates a power vacuum for the settlement of business disputes.

Either directly or through nongovernmental organizations, the United States should continue to be active in assisting the Russian government with the drafting and implementation of a criminal and civil code of legislation related specifically to tax and conspiracy. Through similar entities, the United States also should provide assistance designed to help the Russians professionalize their systems to assess and collect taxes.

The American Bar Association (ABA) Standing Committee on Law and National Security, for example, could be utilized in helping the State Duma draft legislation. In this respect, the ABA's Central and Eastern European Law Initiative, a special initiative to educate indigenous legislators and attorneys, can act as an example. Congress should increase its funding support of USAID programs and expand training programs to other agencies, such as the Department of Justice and the United States Information Agency.

Follow the Money

One of the most effective tools for U.S. investigators of OC activity has been the forensic investigation of the proceeds of the groups. It therefore makes sense that law enforcement officials investigating the activities of ROC groups should attempt to locate the banks and banking havens that are the repositories of ill-gotten profits. Once these repositories are identified, official representatives of the victimized jurisdictions can pursue legal avenues for seizing and repatriating the money. Coordinated efforts must target traditional banking havens for the purpose of making them too difficult for the criminal groups to use.

The favored banking locations of ROC groups are no great secret. Among the most prominent repositories are those located in Cyprus, Dubai, Switzerland, and

the Caribbean. With regard to Cyprus, money is channeled from ROC groups in Russia, often in large suitcases brimming with cash. The money is deposited in accounts in Cyprus, only to be transferred to bank accounts in Switzerland, Germany, and Great Britain to make it virtually impossible to trace.

Recruit Intelligence More Actively within Russian Organized Crime

History is replete with the tragic consequences of formulating policies on the basis of faulty or inadequate intelligence. U.S. law enforcement, from the FBI down, missed the boat on the dangers to law and order posed by the LCN and simply did not know about the extent of “organized” crime as it exists in the United States. Law enforcement did not ignore the dangers by design. But, in spite of some good local police work, government and public attention was not focused on the problem until “defectors” from the underworld provided “insider” intelligence on the LCN as an organization and then testified about this underworld organization before Congress and the viewing public. From Joseph Valachi to Sammy “The Bull” Gravano, history shows that former insiders provide the most influential and decisive information on the workings of OC in the United States. Thanks in large part to these informants, successful pursuit and suppression of the “mob” in the United States was accelerated.

In this regard, the U.S. intelligence community does not have a good track record of providing hard, and hard-to-get, intelligence on Russian crime as an organization—or even as a disorganization. The data collected at the direction of the executive branch (for example, directives on the collection of information on “global” OC) and in response to geographically related instances of OC activity (for example, the focus on Russian gangsters living in Brighton Beach) has not been assembled yet. The FBI, CIA, FINCEN, DEA, and the National Drug Intelligence Center all have produced studies on aspects of ROC. These reports, however, have not had the benefits of sufficient information, documentation, or testimony provided by someone from inside ROC. This is a shortcoming on the part of the United States that needs correcting.

U.S. intelligence agencies with an overseas presence must be directed to fill the immense information gaps on ROC. Their elements should use well-tested operational know-how and tradecraft to recruit informants inside ROC or induce defections from the various ranks of people who can provide hard, insider knowledge of how the various ROC elements operate, do not operate, cooperate, and do not cooperate.

Significant Dates and Incidents in Russian Organized Crime

The following is a list of dates with significance to the issue of ROC. Among these are listed numerous attacks against businessmen by individuals suspected of being connected to organized crime groups.

- 1997, June 16 Larisa Nechayeva, director general of the Spartak soccer club, is shot dead in her car along with another woman 85 miles east of Moscow. Nechayeva was in charge of the club's finances and sponsorship.
- 1997, May 26 The chairman of the Moscow government's Education Committee, Lyubov Kezina, is shot in the head from a passing automobile. Kezina was responsible for managing the large real estate holdings of the Education Committee and had been the target of a bomb attack in May 1995.
- 1997, May 15 Olympic boxer Eduard Zakharov dies from multiple stab wounds in the Siberian town of Ukhta.
- 1997, April 22 Valentin Sych, 59, president of the Russian Ice Hockey Federation, and his wife are ambushed by a volley of gunfire as they drive to their dacha in Ivantsevo, north of Moscow. Sych is killed and his wife seriously wounded in the apparent contract killing.
- 1997, April 22 Rashid Aushev, Ingushetia's first deputy minister of the interior who held the public security portfolio, is assassinated as he returns from Nazran to his home in Surkhakhi. Unidentified gunmen fired a burst of submachine fire at Aushev's vehicle, killing the minister and his driver.
- 1997, Feb. 27 Yevgeney Shklyayev, 42, staff aide to State Duma deputy Sergei Shashurin, is shot to death in Moscow. Both men had police records for disorderliness, brawling, or robbery. Shklyayev is the twelfth aide to a State Duma deputy to be murdered, four of them during the previous three months.

- 1997, Feb. 24 Vadim Biryukov, 64, deputy general director of the Press Contact, Ltd., publishing house and founder of *Delovoye lyudi* (Business People) magazine is tortured, beaten, and murdered in his garage on Novolesnaya Street in Moscow.
- 1997, Feb. 21 Ziya Bunyadov, vice president of the National Academy of Sciences and member of Azerbaijan's parliament, is shot twice and stabbed in the lobby of his home in Baku.
- 1997, Feb. 3 Andrey Vavilov, first deputy minister of finance, escapes unharmed from the explosion of a bomb in his car. The attempt on Vavilov's life is likely to stem from either his near-supreme control over the electoral finances of Boris Yeltsin's last presidential campaign, his control over funds to Russia's banks, and/or his presiding over the transfer of state property to private ownership.
- 1997, Jan. 23 Vasily Naumov, Moscow mob leader, is killed in a gangland slaying, as he sits in his automobile, speaking into his mobile phone. A car pulled alongside Naumov's vehicle and sprayed it with bullets, killing the mobster instantly.
- 1997, Jan. 19 A man named Glotser, the owner of a night club and strip joint called Dolls, is shot in the head outside his business establishment near downtown Moscow. Glotser later dies in the hospital.
- 1997, Jan. 18 Gennadi Dzen, director of the Moscow trading company Roskontraktpostavka and aide to Russian politician Vladimir Zhirinovskiy, is killed by a remote-controlled bomb planted in a drainage pipe.
- 1997, Jan. 14 Yuriy Repin, chief executive of the Kutuzovskiy Commercial Bank, is shot dead outside his home in Moscow.
- 1996, Dec. 21 Directorate Deputy Chief Postovityuk of the Russian Army's General Staff is shot four times and left for dead along the bank of the Moskva River.
- 1996, Dec. 20 Sergey Slobodenyuk, coordinator of the Liberal Democratic Party of Russia in the Russian republic of Adygea, is found in his apartment in Maikop (in south-central Russia) with his throat slashed.
- 1996, Dec. 12 Yuriy Vasilev is killed by the explosion of a remote-controlled bomb in his car in Riga, Latvia. Authorities suspect that Vasilev, who was in the motor trade, was involved in moving stolen vehicles from Europe to Russia.
- 1996, Nov. 24 The director of the Ukraina Joint-Stock Company, a man named Kikevich, is shot in the face outside his apartment in Moscow.

- 1996, Nov. 14 Alik Gasanov, a businessman and well-known public figure in Tolyatti, is shot and killed by a sniper outside a restaurant in Samara (southeast of Nizhnyi Novgorod). Gasanov was campaigning for mayoral candidate Anatoly Stepanov days before his assassination.
- 1996, Nov. 11 Sergei Trakhrov, chairman of the Russian Foundation for Disabled Veterans of the War in Afghanistan, is killed by a bomb at Kotlyakovskoye Cemetery as he prepares to address a small group of mourners at a commemorative ceremony for his predecessor, Mikhail Likhodei, himself murdered in 1994. Likhodei's widow, Yelena, and 11 other foundation officials or bystanders also are killed in the explosion. Eighty others are injured.
- 1996, Nov. 3 Yevgeniy Shcherban, president of the Aton Transnational Trading Company and a deputy in Ukraine's parliament, is mowed down by automatic weapons fire as he and his family exit their plane at Donetsk's airport. The killers escape in a jeep. Police believe Shcherban's commercial activities in the gas and metallurgy markets were probably the motive.
- 1996, Nov. 2 Paul Tatum, an American businessman, is gunned down in an underpass near the Kievskaya metro station in Moscow. He was probably slain as the result of a business dispute over the ownership of the local Radisson Hotel.
- 1996, Nov. 1 Valery Korablinov, 56, president of the All-Russia Society of the Deaf, is ambushed by unknown assailants who direct a fusillade of gunfire at his Jeep Grand Cherokee as he drives to work along Old Yaroslavl Highway. Korablinov is taken to emergency surgery, during which he dies of his wounds.
- 1996, Oct. 23 Vladimir Sterlikov, chairman of the Russian Bank for Reconstruction and Development, is critically wounded while driving to his dacha near Moscow. The attackers, disguised as policemen, stop Sterlikov's car and kill his driver before shooting Sterlikov several times.
- 1996, Oct. 17 Security Council chief General Aleksandr Lebed is ousted after losing a power struggle with Interior Minister Kulikov and Yeltsin chief of staff Anatoly Chubais.
- 1996, Sept. 13 Aleksandr Privalov, 33, an Arkhangelsk sugar salesman and suspected gang leader, is killed in an explosion of a one-kilogram bomb at his apartment building in Moscow. Privalov had appeared the previous winter as a witness in a case involving a hit on a member of the OMON (Special Purpose Militia Detachment).

- 1996, Aug. 13. Oleg Lazar, Georgian crime boss, is shot and killed in Angarsk.
- 1996, Aug. 11 Shakro Rozhdenovich Kakachia, 56, Georgian crime boss, is shot repeatedly in the head at an underground parking facility in Berlin.
- 1996, Aug. 8 Nikolai Povosin, president of the construction firm Boniks in the Moscow Oblast town of Krasnogorsk, is shot to death.
- 1996, Aug. 1 Aleksandr Rozhin, president of a real estate company and Liberal Democratic Party of Russia candidate for governor of Krasnodar Krai, is shot to death.
- 1996, July 7 David Sanikidze, a Georgian mafia godfather and manager of the ABV Company, is shot dead by Akakiy Dzhavakhadze and Grigory Oniyani. Dzhavakhadze held Sanikidze responsible for the death of his father, the former chief of the ABV Hotel in Tbilisi, who was shot in Moscow in May 1996. Oniyani is the brother of a powerful Georgian mafioso rival of Sanikidze.
- 1996, July A series of trolley bombings in Moscow fuels speculation about links between terrorism and OC.
- 1996, June 25 Galina Borodina, acting director of the Moscow Oblast Justice Administration, is shot dead in the stairwell of her apartment building in Podolsk, south of Moscow.
- 1996, June 13 Viktor Moslov, 41, city administrator of Zhukovskiy, a suburb of Moscow, and the former director of the Zhilkommunkhoz joint-stock company, is found shot to death outside his apartment. Police noted that he had been shot twice in the head.
- 1996, June 12 Vladimir Oberdorfer, regional secretary of the Liberal Democratic Party of Russia, is shot to death by a lone gunman as he purchases cigarettes at a curbside kiosk in Novokuznetsk in Siberia.
- 1996, June 8 Valeri Shantsev, 48, prefect of Yuzhny Administrative District, Moscow, and a candidate for deputy mayor of Moscow, is injured by the detonation of a homemade bomb at the entrance to his residential building as he departs for work. His bodyguard is also wounded.
- 1996, June 3 Vladimir Moskalets, administrator of the Saltykovka dacha development, is shot to death.
- 1996, May 23 Anatoly Stepanov, deputy justice minister of the Russian Federation, is killed by blows from a blunt object to the head at his home in a northern Moscow suburb.
- 1996, Apr. 27 Dmitri Nechaev, the personal physician of Prime Minister Viktor Chernomyrdin, is reportedly murdered.

- 1996, Apr. 19 Gennadi Donkontsev, mayor of Orenburg in the southern Urals, is wounded by two bombs that explode near the entrance to his home as he leaves for work in the early morning.
- 1996, Apr. 18 Aleksandr Pozdnyakov, deputy chairman of the Izumrudny Commercial Bank, is shot twice in the head and left critically wounded as he arrives for work at his office building in Moscow.
- 1996, Apr. 4 Valentin Smirnov, a scientist and the inventor of the Russian counterpart to the Patriot missile system, is shot to death as he leaves his apartment in Yekaterinburg.
- 1996, Mar. 7 Aleksandr Kakoulin, technical director of the Atommash Joint Stock Company, is shot and mortally wounded by a killer waiting in the foyer of his apartment building as he leaves for work in Rostov-on-Don. The January 29, 1996, killing of Leonid Udalov and his wife may be connected to the murder of Kakoulin as part of an extortion attempt on the company.
- 1996, Feb. 27 Sergei Lopukhov, entrepreneur and former department head in the Scientific-Industrial Association, is mortally wounded in a shooting incident in Moscow.
- 1996, Feb. 27 John Hyden, a visiting British businessman, is killed by a stray bullet when gunmen initiate a shootout in the café he was patronizing in St. Petersburg.
- 1996, Feb. 26 Felix Solovyov, a freelance photographer, is shot to death in Moscow as he walks to his automobile to attend a press conference. He is killed by two youths with handguns equipped with silencers.
- 1996, Feb. 26 Viktor Borisov, founder of the Arlequino Children's Club, Ltd., and his driver (former race car driver Viktor Merzlyakov) are shot to death in their Volga automobile in mid-afternoon Moscow as they wait at a traffic light.
- 1996, Feb. 14 Vladimir Lyashenko, deputy general director of the MosGaz state enterprise, is stabbed to death in the foyer of his apartment building as he returns from work to his home in the Moscow suburb of Domedovo.
- 1996, Feb. 14 Andrey Zakharov, president of the Moscow International Stock Exchange and chairman of the board of the Moscow Interregional Investment Bank, dies of stab wounds suffered during an assault near his residence as he walked home after parking his car.
- 1996, Feb. 15 Aleksei Ilyushenko, formerly Russia's prosecutor general, is arrested and charged with bribery and abuse of power.

- 1996, Jan. 29 Nikolai Sukhov, director of the Rzevka cargo airport of St. Petersburg, is fatally wounded by a shot to the head outside his apartment.
- 1996, Jan. 25 Leonid Udalov, director of the Atom mash Joint Stock Company, and his wife are found beaten to death in their apartment in Rostov-on-Don. Nothing is taken from the apartment and there are no signs of burglary.
- 1996, Jan. 19 Miron Mamedov, 43, Georgian émigré and gangland leader in Moscow, is murdered along with three associates when their car is ambushed.
- 1996, Jan. 11 Colonel Vladimir Kutsenko, deputy chief of the MVD Northwest Railroad Police, is killed when a bomb detonates in the doorway of his apartment building as he walks through the lobby.
- 1996, Jan. 8 Sergey Vilugin, general director of the Obshchemasheksport joint-stock company, is shot to death upon being flagged down by an assassin wearing a police uniform and another assailant. Vilugin escaped an earlier assassination attempt the week before.
- 1995, Dec. 8 Yaroslav Izvaltsev, general director of Russian House Publishers, is shot and critically wounded in Magnitogorsk.
- 1995, Dec. 7 Mikhail Lezhnev, president of the Ravis Company and candidate of Our Home Is Russia in the elections to the State Duma later that month, is killed by a sharpshooter with an assault rifle near his home in Cheliabinsk.
- 1995, Dec. 4 Aleksei Baryshnikov, chief of the Department of Transportation and Communications of the Moscow municipal government, is stabbed to death at the entrance to his home in the northeastern section of Moscow.
- 1995, Nov. 26 Sergei Markidonov, a liberal-moderate member of the State Duma, is shot in the head and killed while campaigning for reelection in Petrovsk–Zabaikalsky in Siberia. (Note: Markidonov was the fourth member of the State Duma to be murdered.)
- 1995, Nov. 8 Pavel Ratonin, president of Lesprombank and a member of the Russian Business Roundtable and the Association of Russian Banks, is shot to death outside his home in Moscow.
- 1995, Oct. 29 Dmitry Mateshev, legal adviser to the Russian Foundation for Disabled Veterans of the War in Afghanistan, and another foundation official, Valery Radchikov, are shot down in a hail of small arms fire on Orlov-Davydovsky Lane in Moscow.

- Mateshev dies of his wounds; Radchikov survives.
- 1995, Oct. 27 Oleg Yenikeev, 34, a city council deputy of Saransk, technical sciences professor, and suspected gangland leader of Mordoviya, is murdered while lecturing at Moscow State University.
- 1995, Oct. 11 Anatoly Ivanov, deputy director of Baranov Motor Works, which makes engines for MiG–29 fighters, is gunned down in the center of the Siberian city of Omsk.
- 1995, Oct. 2 Andrei Zacharenko, director of Primorybprom fishing concern, is killed by a bomb at his home in Vladivostok.
- 1995, Oct. 1 Ivan Lushchinskiy, chairman of the Baltic Shipping Company, dies after being shot five times outside his Moscow apartment by an unknown assassin equipped with a silenced pistol.
- 1995, Sep. 25 Yevgeni Melnitskii, a St. Petersburg lawyer defending an art thief charged with the stealing of \$100 million worth of rare manuscripts from the St. Petersburg National Library, is murdered.
- 1995, Sep. 12 FBI and IRS agents arrest 12 members of a Russian–Armenian crime group in Los Angeles.
- 1995, Sep. 7 Igor Abramov, chairman of the Moscow Society of the Deaf, is shot to death at the entrance of his home on Tallinn Street in Moscow.
- 1995, Aug. 30 ‘Lucky’ Iyinbor, a Nigerian entrepreneur and owner of a restaurant/nightclub in St. Petersburg, is fatally wounded by a gunshot to the head, just outside his apartment.
- 1995, Aug. 8 Feliks Lvov, businessman and consultant in the aluminum sector, is enticed from the VIP lounge at Sheremetevo Airport by two uniformed men as he waits for a flight to Almaty; his body is found a few hours later on the Moscow–Riga Highway with four bullet wounds to the chest and one to the head.
- 1995, Aug. 8 Marat Sharygin, owner of a restaurant chain, and his eight-year-old daughter, Karina, are killed and dismembered by a bomb under the hood of their car in Vladivostok.
- 1995, Aug. 8 Ivan Kivelidi, a prominent Moscow banker (with Robiznesbank) and president of the Russian Business Roundtable, is murdered along with his secretary by a cup of tea poisoned with radioactive cadmium salt.
- 1995, Aug. The Canadian Security Intelligence Service releases a report that calls ROC a real and direct threat to Canada and its interests.

- 1995, July 20 Oleg Kantor, president of Moscow's Yugorsky Bank, is stabbed to death while his bodyguard is shot point-blank. When the incident occurs, both are in a heavily protected compound of the Snegiri Holiday Center.
- 1995, June Chechen organized crime groups establish a presence in Argentina.
- 1995, June Russian computer hacker Vladimir Levin penetrates bank computers at Citicorp's headquarters in New York City. (Note: This activity continued for four months. It eventually netted the thieves a total of \$400,000 and resulted in the illegal transfer of over \$11.6 million.)
- 1995, June 8 The FBI arrests Vyacheslav Ivankov (also known as Yaponchik) as part of an investigation into extortion in the Russian émigré community in New York City.
- 1995, Apr. 18 Andrei Orekhov, general director of Grant Brokerage House, is shot and critically wounded by two assailants who spray his car with automatic weapons fire as it leaves the courtyard of his residence in southwest Moscow. His six-year-old daughter, riding in the car on her way to kindergarten, is killed as well.
- 1995, Apr. 12 Vadim Yafyasov, vice president of Yugorsky Bank, is shot and killed while driving in Moscow.
- 1995, Apr. 6 Valery Tokarev, commercial director of Sayansky Aluminum Factory, is shot and seriously wounded in Moscow.
- 1995, Apr. 6 Sergey Alekseyevich Kushnarev, founder of the Agrarian Party of Russia and the Zarechye joint-stock company, is found dead of multiple stab wounds to the back at the entrance to his house in the Moscow Oblast.
- 1995, Mar. 9 Oleg Zverev, president of the Russian Federation of the Union of Entrepreneurs, member of the board of the Russian Business Roundtable, and general director of the Inter-Atlantic Joint Stock Company, is killed by four gunshot wounds to the head and back in the stairwell of his apartment building.
- 1995, Mar. 1 Vladislav Listyev, television journalist and executive director of ORT (Russian public television), is shot to death.
- 1995, Feb. 2 Sergey Skorochkin, an independent member of the State Duma and general director of Raduga Venture, is abducted from a bar and later found handcuffed and shot to death outside Moscow.
- 1994, Nov. 11 Mikhail Likhodei, chairman of the Russian Foundation for Disabled Veterans of the War in Afghanistan, is killed by a command-detonated bomb at the entrance to his home on Orekhovoi Boulevard in Moscow.

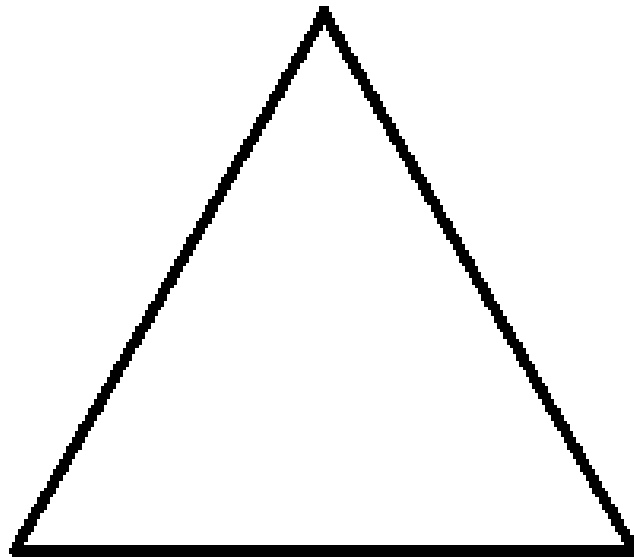
- 1994, Nov. 5 Valentin Martemyanov, Communist Party member of the State Duma, dies after being beaten by robbers at his Moscow home. The incident occurs shortly after Martemyanov distributes a list of ROC members.
- 1994, Oct. 17 Dmitry Kholodov, a journalist for *Moskovskii Komsomolets*, is killed by a suitcase bomb in the course of investigating corruption in the Western Group of Forces of the Russian Army.
- 1994, Aug. 8 Anatoly Kuzmin, general director of the state fuel concern Megionneftegaz, is gunned down in southwest Moscow along with his driver as they approach his Mercedes-Benz limousine.
- 1994, July A working agreement is signed between the FBI and MVD to allow them to work cooperatively on OC cases.
- 1994, May The FBI establishes a ROC squad in New York City.
- 1994, Apr. 26 Andreij Aidedzis, New Regional Policy member of the State Duma, is killed by a rifle bullet at his home in Khimki in the Moscow Oblast.
- 1994, Apr. 5 Otari Kvantrishvili, a reputed Georgian criminal overlord, is shot dead in Moscow near Krasnaya Presnya bathhouse.
- 1994, Feb. 1 Sergei Dubov, publisher and president of *Novoye vremya* (New Times) publishing company, is assassinated by a lone gunman as he leaves his Moscow residence.
- 1994, Jan. 12 Former Russian boxer Oleg Koratev, known to be associated with the Valiulins OC group, is murdered in New York.
- 1993, Dec. 11 FBI agents arrest nine ROC-related individuals as they attempt to collect fraudulent fuel excise taxes in the area of Fort Lauderdale.
- 1993, Dec. 2 Nikolai Likhachev, chairman of the board of the Russian Agricultural Bank (Rosselkhoz Bank), is killed by a lone gunman with a high-powered rifle in the entranceway to his home after he refuses to provide extortion money.
- 1993, Nov. 13 Michael Dasaro, a USAID contractor and former employee in the economics section of the American Embassy, is murdered in his Moscow apartment.
- 1993, July A shootout at an Alfa Romeo car dealership in Moscow is believed to be the work of Russian gangsters demanding protection money from the dealership's owners.
- 1993, June 24 L. Lvov, vice president of the Bank for the Development of the Timber Industry, is murdered.

- 1993, Summer The wife of a Swiss businessman who refused to pay protection money is killed by a bomb explosion when she opens the front door of her family's Moscow apartment.
- 1993, May 11 A. Lisnichuk, chairman of the Belarus Business Board, is murdered.
- 1993, Jan. 10 V. Grigoryev, director of the Kuznetsk Basin Industrial Bank, is murdered.
- 1992, Dec. 29 V. Rovensky, chairman of the board of Tekhnobank, and his bodyguard are murdered.
- 1992, June 23 Alexander Slepini, 43, a resident of Brighton Beach in New York City, is found shot to death in the front seat of his automobile on a residential street in Brooklyn. Police note that he was shot three times in the back and twice in the head. Slepini was reported to have spent time in the Soviet prison system before emigrating to the United States in 1990.
- 1992, May 8 Amin Moussostov, 30, is shot several times in the body and once more in the head in the fifth floor hallway of his New Jersey apartment building. Media reports indicate that Moussostov was a reputed ROC hitman involved in extortion rackets in Brighton Beach.
- 1992, Jan. 12 Vyacheslav Lyubarsky, 49, and his 26-year-old son, Vadim, are shot to death in the hallway of their Brighton Beach apartment building. The elder reportedly was linked to the Genovese crime family and had a criminal record in the United States.
- 1992, Sep. 8 Viktor N. Ternyak, a millionaire investment banker, is slain by a lone gunman as he drives from his apartment building in Yekaterinburg.

The ‘Iron Triangle’ of Contemporary Russia

Business

- Lack of regulation, business continuity, and civil law tradition allows unrestricted activities;
- Opportunities for quick deals and large profits.



Bureaucracy

- Rules competitive for new salaries;
- Military, intelligence, and security services personnel seek new opportunities as their salaries shrink in budget, size, and prestige.

Crime groups

- Need to keep government to be effective in the free markets;
- Business and bureaucracy are allies for large profits.

Corruption and Criminality in Russia: The Systemic Roots⁷⁴

Corruption and criminality in Russia are not phenomena unique to the post-Soviet period of seemingly unfettered capitalism under Boris Yeltsin. Contrary to Bolshevik, late-communist, and sympathetic Western historiography, the Soviet period from 1917 to 1991 was not an era of civil tranquility, albeit totalitarian. Indeed, crime and criminals permeated the system, but in a very masked way, considering the police state pedigree of the Party–State. Casual, and politically blinkered, Western observers seldom witnessed public expressions of criminality in Soviet Russia that were so common in the West and now also are readily apparent in post-communist Russia. The Communist Party, the state-controlled media, and the “organs” (KGB) were adept and effective at keeping the lid on the seamier underside of Soviet reality. But lids do precisely that: they hide what is bubbling inside. Added to this was the self-effacing nature of Soviet society, which behaved itself in view of the seeming omniscience and omnipresence of the KGB, and the ground-in memories of decades of KGB terror. State terrorism produced several tens of millions of casualties and a concentration camp system that elicited from Aleksandr Solzhenitsyn the perfect metaphor: an “archipelago” of camps and prisons dotting the Soviet landscape like a string of islands in a vast sea.

Permeating the bleak reality of the police state for the 70-odd years of the Soviet Union was the nagging understanding intuitive to both victims and overlords alike: the totality of the system, from its inception, was illegitimate, illegal, and criminal. It is striking that, as the Communist Party finally collapsed in 1991, even its pampered leadership and favored beneficiaries conceded that the Soviet Union was not a legitimate, humane, civil, or law-based system of governance. The Communist Party had seized power in 1917 in a military coup d’état; it created an extra-legal secret police even before it had formed a regular army. This secret police guaranteed the Communist Party’s monopoly of dictatorial power through the creation of a “counterintelligence state,” which saw its own citizens as enemies

74. The task force focused the final report on the threat of and attendant solutions for, rather than attempting a historical “white paper” approach to, the development of ROC. In recognition of the fact that the pervasive nature of corruption in Russia’s government bureaucracy is founded in the very history of the Russian experience, the task force has decided to include the following commentary by task force member Dr. John J. Dziak in an effort to put this element of ROC into perspective.

to be targeted unceasingly.

As the revolutionary euphoria of the first decade of the system was smothered by the terror of the 1930s, the structure gradually ossified into a privileged class (*privilgentsiia*) of party, military, state, and secret police apparatchiks who presided over a system of carefully orchestrated and distributed shortages. The long era of Leonid Brezhnev's rule is paradigmatic of such institutionalized corruption in which an oxymoronic socialist economy was kept afloat by an illegal, but tolerated—and indeed encouraged—gray- and black-market capitalist economy. Both the Communist Party and the security organs were enmeshed thoroughly and implicated in this witch's brew of legal but impossible socialism, mixed with an illegal but natural and successful free enterprise black market. In a society of shortages, the dispensation of scarce goods becomes the principal vehicle of patronage, which, of course, the Communist Party and secret police jealously controlled. But these very actions entailed illegalities, that is, the violation of "socialist norms," by the very ruling class that preached the virtues of a socialism but that itself refused to live by. Hence, a rank and highly visible hypocrisy paraded itself for all layers of a highly stratified "socialist" society to see and resent. By the time a fervent secret police "reformer" named Yuriy Andropov ascended to the leadership of the Communist Party and the Soviet State in 1982, the moral and social rot had penetrated too deeply for his belated correctives to take hold. It turns out that Andropov's health gave out before that of the Soviet Union. Mikhail Gorbachev's naïve attempts to jump-start socialism's corpse only hastened the recognition that a funeral was in order.

The 74 years of the indulgence of quack economics wedded to totalitarian politics was the real breeding ground for the almost pandemic criminality of contemporary Russia. The following illustrates what, for the average aware citizen of the former Soviet Union, was as obvious as snow in Red Square in January.

Take the Russian "mafias," for example. These were not an invention of Yeltsin's regime or an import from Sicily or New York; they were a systemic element of the Party-State, in which an interpenetration of party, state, and police officials and criminals took place over a period of years on local, regional, republic, and national levels. Organization was both informal as well as more regularized. When accepted "socialist norms" of behavior were violated by outlandish lifestyles or by actions that threatened "arrangements" and political probity, violators—whether party aristocrats or criminals—were reined in and punished. Political position did not always offer protection, as Brezhnev's too-blatantly-corrupt relatives learned to their regret. Brezhnev's daughter and son-in-law actively courted criminal and black market circles; Soviet justice, such as it was, caught up with them. Galina passed into dissolute obscurity, her husband into prison.

Others were luckier, at least for a while. One such person was the professional KGB apparatchik Boris Pugo. Pugo was, in succession, KGB chief and party chief of the Latvian Soviet Socialist Republic. He later became director of the Soviet MVD in the last years of Gorbachev's rule and was one of the perpetrators of the failed Party-KGB *putsch* in August 1991. Pugo allegedly committed suicide after the failure.

Back in his days in Latvia, Pugo acted out the role of Soviet-style viceroy, overseeing a KGB–MVD–party–criminal enterprise dispensing political favors and economic largesse. This combination of official-cum-criminal alliances of convenience was the hallmark of the Soviet-style mafias common throughout the empire. They were particularly legendary—or notorious, depending on who is describing them—in Soviet Central Asia and the Caucasus. The current demonization of the Chechens relates to this tradition, but the Chechens were merely one of the more dynamic elements of a much wider practice in which Communist Party, KGB, and MVD officials were as corrupt as any other entity in the Soviet empire.

When the Communist Party and the Soviet Union dissolved, finding new employment was far, far easier for party and state officials than it was for simple factory workers or *muzhiki* (peasants) from the collective farms. The *vlasti*, or “bosses,” simply privatized state property to themselves and became a new class of businessmen together with their erstwhile colleagues from the former underground economy. Pretenses no longer were necessary. What was once carried out somewhat quietly under official cover now surfaced ostentatiously. Party officials, government ministers, generals, secret policemen, and other state figures became millionaires, multi-millionaires, and, by some accounts, billionaires in a bizarre firesale of socialist assets. As one former political prisoner of the KGB, Vladimir Bukovsky, put it, the “Communist Party got rich at its own funeral.”

Glossary

ABA	American Bar Association
CIA	Central Intelligence Agency
CIS	Commonwealth of Independent States
CSIS	Center for Strategic and International Studies
DCI	Director of Central Intelligence
DEA	Drug Enforcement Agency
FAPSI	Federal Agency for Government Communications and Information (<i>Federalnoye Agentsvo Pravitelstvennoy Svyazi i Informatsii</i>)
FBI	Federal Bureau of Investigation
FBIS	Foreign Broadcast Information Service
FIG	Financial–industrial group
FINCEN	Financial Crimes Enforcement Network
FSB	Federal Security Service (<i>Federalnaya Sluzhba Bezopasnosti</i>)
GDP	Gross domestic product
GOC	Global organized crime
GRU	Russian military intelligence (<i>Glavnoye Razvedyvatelnoye Upravleniye</i>)
GUVD	Russia’s <i>militiya</i> (a branch of the MVD)
IMF	International Monetary Fund
ILEA	International Law Enforcement Agency
IRS	Internal Revenue Service
KGB	Committee on State Security (<i>Komitet Gosudarstvennoy Bezopasnosti</i>)
LCN	La Cosa Nostra (the Italian–American mafia)
LEGATT	Legal Attaché
MVD	Ministry of the Interior (<i>Ministerstvo Vnutrennykh Del</i>)
MVES	Russian tax police
NATO	North Atlantic Treaty Organization
NBC	Nuclear-biological-chemical

NCIS	National Criminal Intelligence Service (UK)
NGO	Nongovernmental organization
OC	Organized crime
OCCD	Organized Crime Control Department (Russian MVD)
OSAC	Overseas Security Advisory Council
RCMP	Royal Canadian Mounted Police
ROC	Russian organized crime
SABIT	Special American Business Internship Training program
SVR	Foreign Intelligence Service (<i>Sluzhba Vneshney Razvedki</i>)
UBEP	Russian tax police (branch of MVD)
USAID	United States Agency for International Development