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PROXIMAL CONSULTING WHITE PAPER 14 AN OVERVIEW OF ORGANIZED CRIMINAL ACTIVITY IN RUSSIA

"If the forces of organized crime are not stymied, Russia will complete its evolution into a criminal-syndicalist state" William Webster, former CIA director and Chairman of the US Centre for Strategic and International Studies report into Russian organized crime.

Of all organized crime groupings the one to grab most media attention has been the Russian mafia. However this is not just a media scare story - the analysis which has come out from official law enforcement bodies is depressingly familiar and similar in both tone and content. A UK National Criminal Intelligence Service (NCIS) confidential briefing commented that:

In Russia the normally stable international banking business has become a dangerous place...The economy's criminalization is so pervasive that there is often a fine line between gangsters, corrupt bureaucrats and the new entrepreneurs who find it virtually impossible to operate in Russia without breaking the law or having some contact with Russia's Mafia. There is a crude view of business: disputes are settled with guns and the legal system is in a state of collapse.

A direct echo of these observations can also be found in the US State Department's 1997 International Narcotics Control Strategy Report in the Money Laundering Section:

Continued growth of economic crimes in the financial sector, inefficient tax and government enforcement mechanisms and the prevalence of capital flight suggest significant money laundering activity...(former) Prime Minister Viktor Chernomyrdin stated that Russia's illegal or semi-legal economy accounts for between 20 - 50 percent of the total economic activity. Interior minister Anatoliy Kulikov estimates that up to \$300 billion has been smuggled out of Russia in the last five years. This shadow economy is a breeding ground for corruption, money laundering, a source for further criminality, criminals and organized crime.

According to one Russian Law Enforcement official the number of economic (white collar) crimes in the financial sector increased to an estimated 8,000 in the first half of 1996, compared to 13,900 for the whole of 1995. These crimes include fraud, securities forgery, illegal trading operations, and violations of currency controls. Criminal elements reportedly continue to play a role in commercial enterprises, including the ownership or control of banks. A Russian law enforcement official once

estimated that at one time 550 of Russia's nearly 3,000 banks were controlled by organized crime. Banks, foreign exchange houses, and other financial services institutions may be involved in money laundering. The implications of such activity go beyond money laundering. They can undermine the strength and stability of Russia's financial system by contributing to the widespread perception that some banks are untrustworthy, depriving the financial system and industry of resources and investment.

General Stanislav Gaveto, the deputy military prosecutor, when talking of military corruption described:

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.

Or as Boris Yeltsin himself put it in a radio address in 1997:

Criminal elements are trying to infiltrate government. Their main aim is to move closer to the feeding trough...they know that is where they will find a golden vein.

In an unpublished US Defence Department report it is concluded that organized crime in Russia is:

not just a symptom of political and economic transition, nor yet a wholly domestic problem, but a growing threat to regional and global security.

In a country where contract killings average 500 and are sometimes being carried out for as little as \$1,000, 40,000 people are murdered and 70,000 disappear (these are all annual figures!) it is hard not to agree that Russia is akin to the wild west or Chicago in the 1920's - probably both combined running simultaneously. Add to this a new group of super rich entrepreneurs who have built wide reaching and diverse business empires out of bargain basement privatizations supplemented, in some cases, it is alleged by strong connections with organized crime. However the danger is not what is happening now but how the situation will develop. One option is that the free market will supplant crime and the country will transform itself into a fully fledged democracy. That is the optimistic scenario - the bleaker one is that organized crime is so imbedded both in the current environment and the Russian psyche that the conditions required to facilitate the transition to an open transparent democracy simply do not -and will not be allowed to - exist. In 1997 the US Centre for Strategic and International Studies issued a bleak study which observed that Russia was "on the verge of becoming a crime dominated oligarchy, controlled by shady businessmen, corrupt officials and outright criminals". It is estimated that up to 10,000 criminal gangs are competing to control every sector of the economy. Russian authorities report the existence of between 750 - 800 "Thieves in law", the Russian equivalent of Godfathers. Drawing on Russian Interior Ministry figures the report concluded that organized crime controlled:

- 40 % of the country's private businesses

- 60% of the state owned enterprises
- 85% of the country's banks

Such figures are reinforced by similar ones:

- Organized crime activities account for 40% of Russia's GDP
- In 1992 ten bank officials were assassinated by the Moscow based Mafia for refusing to legitimize criminal profits through their banks - later that decade between 1994 to July 1995 there were 30 assassination attempts against top banking officials - 16 of which were successful, resulting in the target's death. In 1996 one of the more exotic killings occurred when Ivan Kivelidi, a banker, was fatally poisoned through an obscure nerve toxin being placed on the rim of his coffee cup
- In 1995 35 people involved in Metal trading were murdered
- On March 19 1996 shots were fired in Moscow at the apartment of Sergei Dubinin. Mr Dubinin was the head of the Central Bank. Although he was still at work, his mother, wife and two sons were at home when three bullets burst through the window of the apartment. Both police and bank officials speculate that these were warning shots in relation to the attempts to tighten up the controls on Russia's banking industry
- On 3 November 1996 Paul Tatum, an American businessman who was a partner in the Moscow Radisson Slavyanskaya Hotel, was shot dead by a contract killer who pumped eleven bullets into him in front of his bodyguards as he descended the steps of the Kievskaya Metro station (Tatum refused to travel by car as he thought that it would be more difficult to murder him in the Metro system). This was the direct result of a business dispute which Tatum had publicized concerning a tussle for control of the hotel - or at least that was how it was perceived at the time. After his death an arbitration hearing established that he was defrauding his partners having diverted \$2 million from a joint venture bank account. The moral of the story is clear: however dubious your partners may be, you don't rip them off!
- In 1992 Chechen gangs siphoned off \$500 million in a massive bank fraud, the equivalent of one third of the sum provided by the IMF to stabilize the Rouble
- Russian investors have lost \$11 billion through investment in delinquent/fraudulent companies since 1991
- 13% of Russia's commercial banks lost their licences in 1995 and more than 80% of those examined by the Central Bank had broken the law. In fact the Central Bank of Russia has become much more strict in issuing banking licences and in recent years has revoked the licences of over 900 banks, 200 of which were in the first ten months of 1996.

Written in 1999

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