

Organized crime in the economic and financial sectors of Russia and its impact on Western Europe

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Contents

- 1. Introduction**
- 2. Organized crime in the economic sector of Russia**
 - 2.1 Case of the aluminium business
 - 2.2 Case of the oil business
 - 2.3 Background
- 3. Organized crime in the financial sector of Russia**
 - 3.1 Introduction
 - 3.2 Organized crime in the banking sector
 - 3.3 Fraud
 - 3.3.1 Counterfeiting
 - 3.4 Credit card fraud
 - 3.5 Electronic wire transfer
 - 3.6 Money-laundering
 - 3.6.1 Capital flight
- 4. Impact on Western Europe**
 - 4.1 Internationalization of organized crime
 - 4.1.1 The background for internationalization
 - 4.1.2 Networking
 - 4.2 An approach to the problem
- 5. Conclusion**

Preface

Historically speaking the fall of the Berlin Wall in 1989 can be seen as the major event in post-war Europe. However, its effects have proved to be other than entirely positive. The dichotomy of the 'old' continent into capitalist and communist sectors created a unique kind of stability. The 'cold war' was also a way of keeping a 'cold peace'. A convergence of the communist and capitalist system was foreseen by several theorists; the communist system collapsed however, and the capitalist system did not fundamentally change. The bankruptcy of the communist system was fast, radical and almost absolute.

One of the main problems of the new international situation is the growth of (organized) crime in Russia and its surrounding countries. This crime problem is not just a matter of internal Russian affairs. It is a fact of common knowledge that members of Russian criminal groups operate in Western countries, that criminal money is involved in legal international business, that western criminal groups are looking for (il)legal markets in Russia. These phenomena are common knowledge, but the factual knowledge is very obscure. There is just a very impressionistic insight in the exportation of the Russian crime problem to the West, and more specific to the Netherlands.

With this short outline, the reason for this report has been given. At the WODC there was a growing awareness that there is a great need for substantial research on the subject. For this reason the WODC started an 'eastern Europe project'. One of the first missings seems to be a thorough insight in the crime problem as it is experienced and reflected in Russia itself. How does the press reflect the crime problem; what theoretical notions are developed in Russia; what can be learned from Russian literature about the threat to the West? These kind of questions were the beginning of the .

The output of the project was two-folded. In the first place a special issue of the **European Journal on Criminal Policy and Research** was published in December 1995 (East meets West in Crime). Several authors from east and west deliver together a various insight of the crime problem in the post-communist countries. In the second place Timur Sinuraja was asked to study Russian-language literature and press-publications. Being raised in Moscow and educated in Russian law, he did fit the need for information from Russian sources very well.

It was decided that the literature study should focus on the economical and financial aspects of organized crime. More specific the WODC was interested in Russian information about the 'internationalization' of criminal money. The study has the evidential bias of being restricted to secondary sources. The findings reflect the conclusions as they are drawn by journalists, practitioners and theorists in Russia and other countries; there are no original research data involved. An article on the findings of Timur Sinuraja was published in the issue of the European Journal already mentioned.

The project was supervised by a committee of Woudsma (CRI), Van Essen (IRT Noord-Oost Nederland), Van den Berg (University of Leiden), Wijenburg and Ridley (Europol). We would like to thank these experts for their support and critical comments. We hope the report will contribute to the knowledge about, what can expected to be, one of the main theme's in criminal policy of the late nineties.

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1 Introduction

The goal of the report was to gather the information from Russian periodicals on the activities of organized criminal groups in the economic and financial sectors of Russia which are in one way or another having an impact on Western Europe. Hence the subject of the report is not drug or weapon trafficking, prostitution or trade in radioactive materials. It can be said that the main goal of this report is two-fold: (1) to define the main forms of organized criminal activities in Russia's economic and financial sectors and (2) to identify their impact on Western Europe.

The primary sources of factual information for this report were Russia's leading business journal "Kommersant", the law-enforcement magazine "Chelovek i Zakon", and the Russian newspapers "Izvestia" and "Moscowskiye Novosti". Other sources, Russian and foreign, were used to a lesser extent. Although the author did examine back numbers of "Izvestia" and "Moskovskiye Novosti" from 1991 to 1995, most of the information is from 1994 and 1995 due to the considerable increase of publications on the activities of organized crime in the economic and financial sectors of Russia during that period. The same applies to other Russian sources. Of course, one has to take into account that the information for this report was largely taken from Russian periodicals which means it is not "hard" information. The report therefore reflects what has been published in Russia in some periodicals on the subject rather than being an objective evaluation of the situation.

The method used in writing this report can be described as follows. First phase, systematization which means extracting bits of information from the mass of available literature which can be divided into general and factual categories. Second phase, the actual writing of the report with the emphasis on the factual information [including statistics] from Russian periodicals (journals and newspapers), correct structure and analysis. The interconnection and combination of the factual and general material established the method by which this report was prepared.

This report is not exhaustive and not all the aspects of a given subject were considered. The subject is complicated and there is an obvious lack of hard information. To present information clearly the report is divided into three chapters. The first chapter focuses on the activities of organized crime in the economic sector of Russia taking the aluminium and oil businesses as examples. This chapter also contains a theoretical explanation of the background for the development of organized crime during the transition period. The second chapter is dedicated to the activities of organized criminal groups in the financial sector, with the emphasis on different types of fraud

and money-laundering. Each section contains general information as an introduction, followed by exemplary cases and a conclusion. The third chapter consists of a short evaluation of the impact the activities of organized crime from Russia have had on Western Europe, and this is followed by a review of its internationalization phase.

2 Organized crime in the economic sector of Russia

The crimes committed in the economic sector fall within the scope of the Russian Criminal Code Special Part¹ and include: 1) theft and stealing of property including embezzlement; 2) fraud, extortion; 3) tax evasion; 4) abuse of official position, receiving and giving of bribes; 5) violation of the rules governing currency transactions; 6) violation of the rules of trade, illegal entrepreneurship and so on. Russian experts point out that one of the main fields of activity of organized crime in the Russian Federation is the economy (Dolgova and D'yakov, 1993, p.270). In the words of Ageev: "In the West the money-laundering has grown on the drug-trafficking. In our country, fortunately, it is not that common (...) the main illegal incomes are coming from the crimes in the economic sector" (Ageev, 1995). Kuznetsova points out that lucrative economic crime in Russia is closely connected with organized crime (Kuznetsova, 1994, p.444). At a press conference on October 13, 1995 Yu Baturin assistant to president Yeltsin on national security matters, included economic crime among the major problems facing Russia's national security. He said that economic crime is the greatest threat to national security. According to Russia's leading business journal "Kommersant", about 72.2% of all criminal offences registered in 1994 in the Russian Federation were committed in the economic sector with an estimated loss of \$4 billion inflicted on the state (Kirichenko, 1995). The journal reports that 36.4% (Kirichenko, 1995, p.18) of all registered crimes in the economic sector in the Russian Federation were committed by organized criminal groups.

According to Mr. Baturin, about 40 thousand enterprises in both the state and private sectors are controlled by criminal groups (Kononenko, 1995). According to the Russian Ministry of the Interior (MVD), "Kommersant" reports that in 1994 organized criminal groups had control of over 48 thousand different commercial structures (about a half of all those in the private sector, mainly in the financial services, retailing, restaurant businesses, and construction); 15 hundred state enterprises, mainly those in the production of energy products, as well as in the construction, transport and other industries); more than 800 (about a third of all) banks are subordinate to the orders of organized crime representatives (Shvearkov, 1995). According to Baturin, one in four criminal groups has connections with corrupt state officials. Bribes sometimes reach hundreds of thousands of dollars. Mr.

¹ The crimes in the economic sector are defined in the Special Part of the Russian Criminal Code of the Russian Federation (with amendments, 1994): Chapter 2 "Crimes against property"; Chapter 6 "Economic Crimes"; Chapter 7 "Occupational crimes" (crimes committed using the official position).

Baturin stressed that there is no universal means to combat this problem, just as there is no money for that (...). On the question, of whether and how much money had ever been offered to him, Mr. Baturin said: "I am happy that nobody has offered anything to me" (Kononenko, 1995). According to the Russian Ministry of the Interior report, 16.5 thousand occupational crimes - committed by state officials - were detected in 1994, which represents an 8% increase compared to 1993. 5,000 cases of bribe taking by the state officials were detected in 1994 which is a 9.4% increase compared to 1993 (MVD 1994 report, p.4).

"Kommersant" writes about strong indications that the activities which constitute the crimes in the economic sector are spreading right through the economic chain from distribution to production (Kirichenko, 1995, pp.18-21). If at the end of the 80's the criminal groups were controlling the enterprises and individuals involved in trading, now the organized criminal groups are extending their spheres of interest to the places where the products are manufactured or produced (raw materials, precious metals etc). This development in criminal activities tends to sweep in everybody holding an important position if these activities are to progress smoothly: officials, various organizations and enterprises etc. For instance, the process of stealing property such as raw materials and transferring them abroad, would most likely include bribery and/or elements of smuggling, and tax and custom duties evasion. In other words, an aggregate of the crimes in the economic sector which fall under the Russian Criminal Code. Furthermore, it is also important to mention that the background for these activities is an undeclared economy which is sometimes called a shadow economy. It includes, besides criminal economic activities, all the hidden volumes of sales, enterprises and individuals working without licences (for import or export, for example). In other words, the economic (illegal) activities which deprive the state from of tax revenues.

"Kommersant" reports that in the first half of 1995 a steady increase of economic crimes with so-called hard currency values (for example, raw materials) was registered in Russia. In 1994, 9300 of these crimes were registered, which is an increase of 60 percent compare to 1993. In the first two months of 1995, says "Kommersant", there were already 5300 crimes registered, which is 46 percent higher than in the same period of 1994. In general in Russia even such a wide spread economic crime as stealing is now more and more oriented towards export. In 1994 Russian law enforcement agencies had registered about 7,800 economic crimes in industrial sectors of which 7,300 were stealing of so-called strategically significant materials which are especially attractive for export, such as rare metals, uranium, high quality steel etc. It must be mentioned that the actual figures may be higher because information on the actual situation regarding the stealing of strategic materials is classified by Russian security services. Further, "Kommersant" reports that in 1994, 270 crimes connected with the extraction and processing of precious metals and stones were detected,

which is a 27 percent increase compared to 1993. A quarter of these crimes involves stealing in significant amounts. As a result of detection by the law enforcement agencies 311.5 kg of gold, 6.3 kg of platinum and 225,600 carats of precious stones were seized in 1994. In 1994, "Kommersant" reports that 1,749 crimes committed during the privatization of state-owned property were registered. This type of crime is usually committed by organized criminal groups and includes the deliberate lowering of the real price of privatized property including business enterprises, conspiracy involving the illegal division of property, deliberate violations of the rules of auctions and public trading, and the sale or lease of privatized property which is prohibited under Russian law (Kirichenko, 1995).

The working definition of organized crime for this report might be as follows. The phenomenon of organized crime in the economic sector during the transition period in the Russian Federation can be defined as the situation when certain individuals and groups interlinked to form criminal associations (Kuznetsova, 1994, p.444), in order to achieve a common goal - creating, protecting and controlling considerable profits by all means (legal and illegal) available to them including the threat or use of violence.

2.1 The case of the aluminium business

Let us consider an example concerning the export of metals. Glinkina says that as a rule, a Russian company sells a commodity (aluminium or copper), which was bought in Russia at subsidized (sometimes inflated) prices to be sold in the West (Glinkina, 1994). Lee supports this opinion, stressing that these metals are sold in very large amounts to the West, leaving most of the generated income deposited in Western banks (for example, Switzerland) (Lee, 1994). Let us consider the background for this trade in more details. Many Russo-West business associations are formed around the so-called commodity chain (Williams, 1995, p.60). In other words, the chain from raw materials to final products. This chain creates a series of supplier relationships (for example, with the aluminium factory and ports in Russia, and the Western companies) and also connections with companies which provide specialized services such as Western law firms (which provide, for example, legal services for the aluminium trade in Western Europe). Smol'kin says that it is almost impossible to trace trade transactions conducted in violation of Russia's tax, banking or other laws if for example, a commodity is sold (to the West European country) according to the contract for 30 cents per X, but in actuality was sold for 40 cents per X and then this deal is formulated by skilled lawyers, and all the documents are kept in a West European law firm. In this case, access to the documents is very limited as from the outside the deal looks "clean" (Galiev, 1995). According to Kameashansky, in spite of lack of investment in the Russian economy, in the sectors where there is a monopoly control over voting shares of the enterprises producing raw materials which have a market abroad, invest-

ments are actively channelled from abroad through shadow channels: the channels which are outside state control (Kameashansky, 1995).

According to the journal "Chelovek i Zakon" there are about 300 privatized companies in the sea and river transportation sector all worth billions of rubles. All these companies are in the hands of a few independent owners. In this sector of water transportation organized criminal groups are trying to seize control, the journal reports. Especially widespread is the illegal export or smuggling of valuable raw materials. This type of crime is occurring more and more frequently. In 1994, 1,131 smuggling offences were detected by Russian law enforcement agencies which is 25 times more than in 1993. The raw materials and other valuable materials which were returned to the state in 1994 were valued at almost 200 billion rubles. According to the journal, a widely used scheme is when certain products, for example oil or copper, are sent to a Russian bogus-buyer in Kaliningrad. In actuality it is intercepted on Baltic states territory. In one case concerning smuggling operations, front-companies were set up in the cities of Lipetsk and Moscow in Russia. According to the journal one of the main reasons, for the increase of this kind of crime is corruption of state officials in the transportation sector: 400 corruption cases were detected in 1995 which is a 20 percent rise compared to the same period of 1994. There is a need for intergovernmental co-operation in detecting and prosecuting cross-border smuggling, says Michael Kurkin head of the economic crime department of the Russian transport police. He points out the necessity of cross-border investigations (Kurkin,1995), because, for example, most of the copper or aluminium smuggling to Western Europe goes through the territory of Latvia, Lithuania and Estonia. In 1993 "Izvestia" reported that 90 percent of metal exports in Estonia are illegal. In 1993 5,500 trucks loaded with metals illegally crossed Estonia. It has become the fourth biggest exporter of metals in the world, while not producing any metals of its own. The metals, "Izvestia" reports, which are transported without paying custom duties either in Russia or in Estonia are usually transported by sea to third countries. This trade is controlled by organized crime which transports metals from Russia, Ukraine and Kazakhstan through Estonia to third countries (Zubkov,1993).

Mr. Samoylow, then head of Russia's national armament trading company, in his interview for "Kommersant" in 1994 said, referring to the mere scale of Russian metal export: "In one year we have ruined the European markets of aluminium and copper markets" (Samoylow,1994). Let us see what else is reported on this subject by Russian periodicals. "Moskovskie Novosti" reported in August 1993 that the European Commission had introduced restrictions, initiating an anti-dumping procedure, on the import of aluminium from CIS countries (mainly the Russian Federation). This measure was to continue from August 1993 until the end of November 1993, during which time aluminium imports were not to exceed 60,000 tons. According to the European Commission, aluminium production in CIS

countries has huge advantages: artificially low energy prices and environmental standards which are far less strict than European standards. There were active negotiations on this subject, but an agreement was not reached. Moreover, the European Commission could not obtain from the Russian side exact statistics on aluminium production and imports from CIS countries to Western Europe (Borodenzov, 1993). Mr. Georgy Gabunia, deputy minister of external economic relations, gave his own opinion on the situation. From 1990 till 1993 as a result of a fall in production and changes in the defence industry, the export of aluminium from CIS to Europe increased from 90,000 to 530,000 tons per year, which is 9 percent of the entire European market. Moreover, 200,000 tons from annual export only goes through Western Europe on its way to third countries. 90 percent of all aluminium exports from CIS countries is Russian, the rest is from Tadjikistan, Azerbaijan and Ukraine. According to Mr. Gabunia, Russian aluminium is cheap because of the low cost of hydro-electricity in Russia. According to Gabunia, exact statistics on all Russian aluminium exports to Western Europe were not available, including unofficial or "shadow" exports.

Mr. Gabunia said that aluminium exports from Russia total about one million tons per year, including export through the Baltic states (Borodenzov, 1993). We can roughly say that this means the "shadow" aluminium trade is at least 100,000 tons per year. Furthermore, the actions of the European Commission coincided with an increase in the energy price in Russia, which tended to threaten the profitability of the Russian aluminium trade. Therefore, the "shadow" trade had probably increased, attempting to seize an opportunity while the energy price was still low. It would be logical to presume that during this period when the European Commission took actions against Russia, the "shadow" aluminium business in Russia became very active, attracting the attention of organized criminal groups.

Cases:

1. In July 1992 "...Russian and Lithuanian investigators broke up a ring of army officers and senior government officials involved in a conspiracy to smuggle aluminium pipe from Russia to the Netherlands. The pipe was 'purchased' by the Moscow International Centre for Cultural Relations and sold to the Lithuanian Central Trading house in Kaunas. Russian military officers in the Baltic garrisons were listed on the customs invoice as receivers of the shipment, which thereby exempted the shippers from paying Russian duties on shipping to non-Russian organizations" (Handelman, p.231).
2. The Russian newspaper "Izvestia" linked the death of three prominent businessmen to the trade and production of aluminium (Lemon, 1995). The victims were the bankers Oleg Kantor and Vadim Iafyasov of Yugorskii bank and more recently Sergei Brzhosnevskii, director of the Moscow branch of the Volgograd aluminium factory, who was shot on 31 July 1995 while entering his home. Izvestia speculated that the

success of aluminium stocks and ventures last year, due to privatization, drew the attention of criminals (Lemon, 1995);

3. Also according to "Izvestia", Felix Lyvov, a prominent Russian businessman who specialized in the aluminium trade, was killed at the beginning of September 1995. He was, according to "Izvestia", abducted from the VIP section of one of Moscow's airports by two unidentified men, posing as security service (FSB) agents. Felix Lyvov was found dead near Moscow, he had five bullet wounds one of which was in the head. Further, "Izvestia" reports that Lyvov represented the trading firm "Ayok" in CIS countries and he also headed a couple of other firms and was involved in a joint venture between "Ayok" and an aluminium factory in Krasnoyarsk (Russia). Lyvov had some business contacts with the banker Vadim Iafyasof who was also killed recently. There was, reportedly, tension between Lyvov and the firms of Lev and Michael Ch. Their firms were mostly short-lived companies which had been established for a single [business] operation, the most active of which was registered in a Monte Carlo trading firm "TRAN-CIS COMMODITIES", which held 20 percent of the shares of Krasnoyarsk aluminium factory. Lyvov was striving towards independence for the aluminium factory from "TRANS CIS". Through judicial proceedings, the shares of the aluminium factory were taken away from "TRANS CIS". There was also tension between Lyvov and Lev and Michael Ch. for control over the oil-refinery in Omsk (Russia) which produces materials for aluminium production. The director of Omsk oil-refinery recently suffered a heart attack while he was swimming in the river and died. During the hearings in the Duma (Russian parliament) on May 30, 1995 "On the situation of privatization in the aluminium industry" Lyvov said: "As a result of privatization in the aluminium industry enterprises were handed over to dishonest owners. That is why long-expected funds for reconstruction and the introduction of new technologies were not received by the enterprises. Their new owners pursue only one goal: making super profits without thinking of the modernization of production processes or the environment. Using the loopholes in the current legislation and irregularities in the work of the federal property fund, the front companies created by the banks which did not hesitate to use illegal money, participated in the public trading of shares of aluminium enterprises. They did not intend to make the investments that they offered. The trading fraud took place with the aim of getting onto the list of stockholders. The examples here are the trading of shares of Sayan and Novokuznetsk aluminium enterprises, and Samara and Krasnoyarsk metallurgy enterprises. As a result of these trades neither the enterprises nor the state received a single ruble. The ownership monopoly of controlling shares presents unlimited opportunities for shadow business, tax evasion, and fraud against other stockholders..." (Tarasov, 1995).

Conclusion: The key problem here, in my view, is that economic reforms, in particular privatization and trade liberalization, in the shape which they have taken in today's Russia make legitimate businesses strive for the same goal as criminal groups: to seize control of as much of the market as possible by taking over privatized enterprises, secure trade in Western Europe and have as little state control as possible. We can presume that the aluminium trade attracted the attention of criminal groups because it is so lucrative. The deaths of prominent businessmen can serve as an indication that criminal groups are active in this field. Furthermore, it can be said that limited state control in this sphere resulted in a vast unauthorized trade of which organized crime took advantage. This unofficial trade had a direct impact on the aluminium market in Western Europe.

2.2 The case of the oil business

Trade in Russian oil is a very lucrative trade indeed. Unfortunately, it has also proved to be a very violent trade, which is evident in cases cited below. Once the biggest oil producer in the world, Russia is still among the top oil producers, ranking third after Saudi Arabia and the United States. The rapid privatization of oil industry enterprises and oil trade liberalization in Russia created an opportunity to make big profits (in hard currency) fast. According to Ovchinsky one of the reasons for the sky-rocketing of oil exports was the speed at which Russian oil prices were brought into line with the world market price under the IMF requirements (Ovchinsky, 1993, p.69). This, he says, diminished demand for oil within Russia - as for many enterprises the price was too high - whilst simultaneously releasing a considerable part of it for export. He points out that in 1992 organized crime exported 67 percent of Russian oil. As the result of the illegal export of oil the Russian Federation sustained a loss of 300 million dollars in 1993 alone with most of this money being deposited in Western banks (Ovchinsky, 1993, p.70). On average there are about 10,000 crimes detected annually in the Russian energy sector, all connected with the export of raw materials and a considerable part of it is in the oil trade: most of this crime is in the form of bribery, but there is also theft and abuse of official position. It is evident that corruption is an integral part of the problem (Terebov, 1995, p.13).

Cases:

1. In 1992 one of the first major illegal oil trade operations between Russia and the Baltic states was detected. The oil was sold by the Russian oil-refinery enterprises to the front companies in Kaliningrad Oblast (Russia). In actual fact, oil was purchased by Latvian and Lithuanian firms. On the way to Kaliningrad Oblast the oil was intercepted in Latvia or Lithuania. From there the oil was transported further abroad, including to Western European countries (Ovchinsky, 1993).

2. Another method of illegally exporting oil is what experts call "tolling" operations. The oil from Russia is delivered to an oil refinery in one of the Commonwealth of Independent States countries (so there are no custom duties to pay and also no quotas). However, only a third of it ever returns, the rest being sent to Western countries (Terebov, 1-995,p.14).
3. According to Izvestia, the state oil company YNKO which has the monopoly on oil production in Chechnya loses 13 percent on every 2 million tons it produces as a result of organized criminal activities. These criminal groups operate like an illegal oil company with its own work force and equipment, Izvestia reports. As a rule the criminal group seizes the oil well, and starts to operate it using hired workforce. Izvestia reports that there can be serious gunfights between police units which attempt to intervene and the criminal group defending the well. Reportedly, in one case during such a clash a criminal group was able to call on air support in the form of a Russian army helicopter gunship. This incident points to their connections with the military (Rotary,1995);
4. The problem of internationalization is seen in the so-called Joint Ventures², primarily between Western and Russian organizations engaged in the Russian oil business. Today in the oil industry of Russia there are some 40 Joint Ventures and, according to Terebov, most of them are involved in illegal trade practices (Ovchinsky, 1993). One of the reasons for diminishing controllability of the oil [trade] business is the corruption among the state officials (Terebov,1995). For example, in October 1992, during a check conducted by the control officials in the Orenburg Oblast, over 100 officials of the Orenburg Oblast's administration were found, in violation of the existing law, to be involved in the activities of 95 commercial structures, many of which were engaged in the oil trade (Burenin,1993). One of the examples of the abuse of power is when a state official signs an agreement with an oil trader or even with himself, in the form of a Joint Venture registered under another name abroad, to sell oil by-products. In reality, quality gasoline is shipped. The state receives payment for the fictional lower-priced product but the official and overseas partner sell the real product overseas at its international market price (Pavlov,1994).
5. In Russia, in May 1992 the oil company "Nefsam", director Anatoliy D., was established by the oil-refinery enterprise from Samara (Russia), director Gennady Z. and the company "Teraplast" (Belgium), director Vladimir M., former a Soviet citizen who, allegedly, had connections with organized crime. The average sales of oil and oil products amounted to 100,000 tons per month. However, after a certain period of time both the Russian and Belgian founders of this venture, quite

2 The "Law on the Joint-Ventures" of 1987 set out the first business form of foreign investments in the Soviet Union in over sixty years, opening the door for Western companies. The aim of the Joint-Ventures was to bring in much-needed technology and know-how. That is why, for example in the oil industry, they have favourable treatment such as low export duties.

independently, came to the conclusion that the profits from the sales were lower than they had expected. Apparently, the enterprise was engaged in illegal practices, bribery or tax evasion, which was one of the reasons why the parties in the conflict did not resort to legal means in order to resolve their problems (including gaining control over the operations). Samara's oil-refinery executives felt distrust towards their Belgian counterparts. Gennady Z. was very active in trying to clarify the situation with "Nefsam". He was killed in October 1993. During the meetings in the winter of 1993/1994 an attempt was made to clarify the situation, but on January 15, 1994 a group of gunmen armed with automatic assault rifles opened fire on Vladimir M.'s car, seriously wounding him. Vladimir M. left Russia and in May 1994 during the discussions which took place in Switzerland, he appointed his old friend Valeriy V., as a director general of "Nefsam". On May 15, 1995, at 10 a.m. Valeriy V. was shot dead near his office in Moscow. About 15 executives from the companies which were involved in this venture are now hiding abroad (Leskov, 1994).

6. Sergey T. was a leader of one of Moscow's biggest organized criminal groups. In September 1994, he was, allegedly, killed by a car bomb in Moscow (Schekochikhin, 1995). At the end of the eighties Sergey T. had gained a great deal of respect among Moscow's criminal groups. In 1991 he began to get more involved in the oil business. He registered an off-shore company in Cyprus and invested money in the Russian oil companies. Sergey T. had close connections with Viacheslav I., one of Russia's well-known criminal leaders and who, operating from New York, was also involved in the Russian oil business. There were at least two other criminal leaders killed as the result of "oil" conflicts (Otdel Bezopasnosti., 1995). More than ten of the top executives in the Russian oil industry have been killed recently in Russia (Terebov, 1995, p.15). The last piece of information is from Brussels, Belgium: The Russian oil-trader M. was killed early in the morning of December 18, 1994 near his house in Ukkel (Belgium). The police were almost certain that the assassination was ordered by his competitor. According to the investigators, M. was active in the ruthless world of the Russian oil-traders which has connections with Russian organized crime (Y.B. 1995).

These last two cases have some common features: private trading activities in the Russian oil business; considerable profits; the connection with the shadow economy (its criminal sector) or organized crime in Russia; use of violence; the connection with Western countries through the sales of oil, transfer of funds, business partners, use of a new place of residence or a hiding place. All of this connected with the corruption forms a phenomenon which is sometimes called "oil mafia". We can observe that the problem of the "oil mafia" in Russia tends to cross the borders, into Western Europe.

2.3 Background

Most of the experts, point to two factors which form a background for the growth of organized crime in the economic sector in Russia: first, the existence of the shadow economy during the Soviet era (Dolgova and D'yakov, 1993,p.272) and, second, the transition period as such (Kuznetsova,1994, p.443). Our attention is on what the Russian experts say about the present situation regarding shadow economy during the transition period.

According to Evgeny Yasin, head of the analytical centre of the Russian Federation, the shadow economy is characterized by economic relations which are governed by [criminal] groups. For example, the "black audit", extortion and racketeering are so widespread in Russia because the normal system of economic dispute resolution has not been fully established, leaving this issue open to exploitation by the organized groups. Further, the directors of state and even privatized enterprises create their own small enterprises and invest funds in them because they are not sure whether the present privatization of enterprises is final or whether there will be another division of property. This tendency, says Yasin, is a factor which contributes to the development of the shadow economy. It is especially active in retail business: in 1993 in Russia 42 percent of all income from sales of goods and services was from activities of unregistered enterprises and individuals, who did not pay taxes. There was even a tendency for part of the industrial sector to go into "shadow". Compared to the big fall in industrial production, the decrease in the consumption of electricity has been insignificant which means production is taking place but there is nothing being contributed to the state budget. Capital flight is also a problem. In 1993 13 percent of export trading and 34 percent of import trading was done without any form of tax payment. The money, according to Yasin not so much left the country as was invested in purchase of products which are not registered, therefore providing no contribution to the budget (Yasin,1994). Yasin also believes that an important factor is corruption among state officials due, largely, to the system of quotas and licences. All these factors contribute to the development of an economic relationship which is not based on respect for the law, and where the criminal groups replace the role of the state in protection, enforcing contracts and resolving disputes (Yasin,1995).

Ilyuhin says, for example, that more than 60 percent of capital in the economy and more than 80 percent of voting shares from the end of 1993 onwards have been transferred to the hands of criminals. According to Ilyuhin, the main causes of crime are the social and economic changes which are taking place in Russia, such as transfer of property rights to the private sector (Ilyhin,1995). Yashkin points out that criminal organizations actively establish their own commercial structures for fraud, money laundering and currency transfer to Western banks. There is a continual

process of transition from small and medium gangs extorting money from different entrepreneurs to long-term agreements between criminal groups and commercial structures. The gangs of racketeers which were created spontaneously are graduating into the new forms of highly organized criminal groups. Besides racketeering they also are involved in protection of firms they control and suppression of competition (Yashkin,1995). Adashkevich says that while the second stage of privatization is under way the interests of the legal economy and organized crime lie in the same dimension, that is obtaining as much control as possible over privatized state property. As a consequence of this development there is no real social demand for strong, professional law enforcement which would effectively combat organized crime (Adashkevich,1995).

Karpets writes that "the transition (...) period triggered an unprecedented increase of crime, primarily, organized, economic and gravely violent. Only when there are stable economic, social and political relations within a society is it possible to combat such crime successfully. Unfortunately, we do not have such conditions right now" (Karpets,1992,p.50). The transition to the market-oriented economy in Russia demanded a radical reconstruction of the society. There are two main parts to the implementation of the reforms taking place during the transition period: (1) governmental (economic) policy which is expressed through the (2) legal reform. Governmental policy has been heavily criticized for its controversy and mistakes which, allegedly, contributed to the growth of economic crime in Russia (Kuznetsova,1994,p.443;Glinkina, 1994, p.385). However, one of the features of the transition period in Russia is diminution of the administrative manageability of the society and economy (Vedenev,1995). One would think that writing all the necessary laws and putting them into place would resolve most of the problems. But as the practice shows, for the laws to be workable they should have certain economic and social foundations. Even if the laws are put into place there are problems which "...did not arise from the flaws in the legal regime but from the underlying dynamics within the Russian markets" (Brown,1994,p.511). To explain this notion in relation to the problem of organized crime we should consider it in more detail.

Along with the *diminution of the authority of the state and law as a result of the break up of the Soviet Union*, it appears that organized crime in Russia has been able to take advantage of practically all aspects of the transition period in Russia from 1991 onwards. Most of the experts agree on the three main aspects of the transition to a market economy: (1) *privatization*; (2) *elimination of the command economy*; (3) *trade liberalization* (Burgess,1992,p.194).

Privatization in Russia is an unprecedented transfer of property rights from the public to the private sector (Brown,1994,p.514). The difficulties which were encountered sometimes exceeded the potential of the market to deal with them. There was no experience as to how to conduct public trading of

the shares of enterprises and with no controlling system in place, it was open for abuse: fraud, embezzlement etc (Kuznetsova,1994,p.449). As a result of privatization many enterprises and, most importantly their new owners, were unprepared for what followed. Their behaviour in the new economic environment was not subject to the real state control and appropriate regulations had not been introduced, consequently illegal activities flourished (for example, in oil export), as did abuses in the corporate governance area etc. As many enterprises needed ready cash (Brown,1994,p.513) to keep them going, the origin of the cash inflow on offer became a secondary consideration. Therefore, for organized criminal groups this also provided an opportunity to successfully invest their ill-gotten income and by so doing establish direct links with the legal economy.

Elimination of command economy include: (1) removal of planning; (2) removal of price controls; (3) de-monopolization. (1) One of the results of the removal of planning is well-illustrated by the words of Karpets, who said: "...if a plan demanded from an enterprise a production output of 100 percent, but the enterprise was supplied with resources and materials for only 50-70 percent output, this inevitably led to the occurrence of criminal activities. But paradoxically it was easier for the law enforcement agencies to control the criminal activities of this kind and detect the criminals"(Karpets,1992,p.50). (2) The removal of price controls allowed the organized criminal groups to make profits from creating dumping prices which meant huge profits in a short period of time. (3) De-monopolization meant that the role of the ministries in managing the industries diminished. It also meant that control over enterprises was lost to the point that the enterprises were responsible to anybody, as no control system of any kind had been established. This was a contribution factor when the economic criminal activities (stealing, fraud, embezzlement) within the enterprises [including of the oil industry] proved very difficult to prevent, detect and prosecute.

Trade liberalization allowed organized criminal groups to move their capital abroad on a really large scale. Enterprises received the right to establish directly any form of economic contact with foreign partners. In this situation control, including the control over hard currency transactions, was an almost impossible task. According to Bernshtam, the new system of licences and quotas for exports introduced by the trade liberalization resulted in abuse and corruption of which organized crime took advantage (Bernshtam,1994). For example, the state official who is responsible for the issuing of a license for the export of petroleum products from Russia would be offered a fee by a criminal group which was a hundred times higher than his salary. On the other hand, the establishment of joint-ventures, and other trading ventures without any real form of state control in place, was an ideal situation for capital flight and, eventually, cross-border money-laundering schemes.

These underlying dynamics of the Russian markets during the transition period have created an environment in which money can be made, virtually, over night. This has also become a feeding time for criminal groups as the absence of appropriate state control over economic activities during the transition period, has made the shadow economy and the whole new private sector in Russia a playground for organized crime. Yergin and Gustafson write about the situation in Russia today: "Organized crime is currently a major economic force (...) At this point, one of the most important issues for the future is how the next generation of gangsters will choose to invest their gains and how they will exert control" (Yergin and Gustafson, 1994, p. 86).

3 Organized crime in the financial sector of Russia

3.1 Introduction

The financial sector is an integral part of the economy, and because the problem of the activities of organized crime in this sector in Russia is so serious, the following chapter is dedicated exclusively to this subject. Besides activities of organized criminal groups directed against banks, for example extortion or coercion, there are two other main types of criminal activities in this sector: different forms of fraud including forgery and money laundering. In most of the cases there are *organized criminal groups* involved. Further, this type of crime often involves corruption (for example, among the bank's officials). Some information on the present situation regarding this problem in Russia points to possible *internationalization* of organized crime activities in the financial sector.

Ronald Noble of the U.S. Treasury Department identified some of the threats, saying: "...the Russian-dominated groups are engaging in sophisticated financial schemes that strike at the heart of the Treasury's interests. Income and excise tax fraud, evasion of Customs duties, counterfeiting and credit card fraud are all crimes that affect the stability of the international financial system" (Noble, 1995). Zagaris and MacDonald identified electronic wire transfer of funds and credit cards as risk-sectors where technological advance in the financial sphere can be vulnerable to fraud (Zagaris and MacDonald, 1995). "Kommersant" reports that Russian experts predict a substantial increase of crimes in the financial sector in the next two years: fraud connected with banking guarantees, credit card fraud, travel cheque fraud, banks' computerized systems being break into, and fraud in insurance (Kirichenko, 1995). Therefore, this chapter is dedicated to fraud in the banking sector, counterfeiting, credit card fraud, electronic wire transfer and money-laundering and their impact on Western Europe.

3.2 Organized crime in the banking sector of Russia.

Banking appears to be one of the most dangerous occupations in Russia. This according to Aleksandr Zhilin, one of Russia's leading journalist who specializes in organized crime. Several dozen Russian bankers have been victims of mafia-style killings in recent months. Among them were the heads of Proftekhbank, Tekhno-Bank, Pragma-Bank, Mosbiznesbank, the Bank for Development of the Wood Industry, Kuzbassprombank, Eurasia-Bank, the chief manager of Incombank's St. Petersburg affiliate, the

chief manager of Agroprombank's St. Petersburg affiliate and the chief accountant of the Russian Municipal Bank. Moreover, the Russian authorities have not solved any of these cases yet. Organized criminal groups, says Zhilin, are using increasingly sophisticated methods to penetrate and ultimately control banks. Before making their moves the criminal groups study the bank thoroughly. First they collect information about the bank's security system and its vulnerable spots, its chief managers and personnel, their habits, schedule of office hours, connections, addresses, etc. Obviously, to collect this information criminals must first install their "agent" into the bank. They do this by working with current bank personnel or by getting their own men hired at the banks. As a rule, the mafia leaders demand regular "tribute" from these banks in exchange for protection from "rival bandit groups." Moreover, the criminal group undertakes to have "all problems settled" for the bank with the police, tax inspectorate and other relevant state services. Criminals use various methods to "tame" bankers. Increasingly, the most common method is simply to shoot them, which exerts psychological pressure on other bankers. Another method practised by criminals in order to "tame" bankers is kidnapping (of the banker himself or those closest to him) for ransom. In addition to the "violent" methods, the criminals employ purely economic takeover schemes as well, i.e., they become shareholders and seek to acquire a controlling share of stock. Such a takeover is accomplished either by buying out other shareholders or by recommending that the management of a bank include additional shareholders from firms that still look "clean" but in fact belong to criminal entities (Zhilin,1995).

This crime wave is a derivative of the dramatic increase in criminal financial dealings in Russia (Zhilin,1995). The fact is that a bank is a vitally important element in the "shadow" business infrastructure, because it is a crucial element in the integration of money made from illegal ("shadow") economic activities to the legitimate economy. Pahomov stresses the dubious activities in the Russian financial market of many of Russia's financial actors: there are 2,500 Russian banks (of which 2,000 are in Moscow), about 800 investment companies, and 3,000 insurance companies (Pahomov-,1995). "Kommersant" reports that in Russia from 1993 to 1995 the number of crimes in the financial sector increased 10 fold. In 1994 the crimes resulting from credits being received with forged documents numbered 885 with direct damages of up to 0.5 trillion rubles. Most of the crimes in the financial sector are committed in the banking sector. In insurance in 1994 the number of crimes increased one and a half times compared to 1993, in the pension system - the increase was almost 4 times (Kirichenko,1995). "Chelovek i Zakon" reports that many frauds were registered in activities of companies (often operating without licences) represented as different types of investment funds. By 1994 about 3 million claims from people who had not received their money back from these kinds of companies were received by Russian law enforcement agencies. In all, these claims amount to over 20 trillion rubles in damages (Fedorov,1995).

In the newly independent states of the former Soviet Union the proposed new payment systems had inadequate safeguards against fraud. An example of the problems in Russia's banking system during the transition period is seen in the degree of controllability of the transactions. According to Pochinok, in the old system control was very strict. In the new system, with scores of new recently established commercial banks, it is almost impossible to say where the money came from or where it went (Pochinok, 1993). Time is needed to overcome this type of problem as in other countries it took decades to establish payment systems (Pochinok, 1993). Meanwhile, the criminals are taking advantage of the uncontrollable situation in Russia's financial system. The words of Ageev make a good example. He says that in today's Russia it is more profitable for criminals to use the banks for criminal profits than to engage in drug trafficking, because it is easier "...to forge the document (letter of credit), to settle things with the bank official and to pocket a couple of billions [rubles]" (Ageev, 1995). Accordingly, organized criminal groups are active in using the financial system in the turbulent transition period for criminal profits and money-laundering. Another reason, says Zhilin, why criminals can act on such a large scale, and virtually with impunity, is the flawed system of interbank payments introduced by the Central Bank of Russia in 1991. Corruption is another factor that makes it easy for large-scale financial fraud. Cynical law enforcement officials are prone to believe that the leniency in the banking security system is no accident, since some high-ranking state officials have been known to benefit from the financial scams. According to police experts, says Zhilin, managers of commercial banks are often involved in the schemes. It is believed that the commercial banks receive up to 30 percent of the sums stolen with forged letters of credit (Zhilin, 1995). The information about the commercial banks available to the police and private detective agencies, says Zhilin, suggests that the process of criminalization of the Russian banking domain is already close to completion. Specialists predict that by August 1996, organized crime will establish global financial control over the country (Zhilin, 1995).

Internationalization

International finance, as the result of structural change (Strange, 1992), has reached a stage where the global economy requires capital to flow easily across national boundaries twenty-four hours a day. This has resulted in the dismantling of old financial borders and has shifted the emphasis of international finance from tangible capital, such as loans [banks' normal tool] to a fast-paced game dependent on sophisticated data, information, and expertise (Zagaris and MacDonald, 1992). This is why the modern financial system had become so complicated. Understandably, the criminal organizations in Russia have taken advantage of this situation, as, according to de Doelder, due to the complicated structures it is always possible to deposit money in many different places [countries], thereby increasing the chance that illegal transactions will not be found by the authorities (de Doelder, 1995).

Cases:

1. **Claire Sterling** writes: "The transfer ruble was not currency but an artificial paper price agreed upon for trade within Comecon, the Soviet block's soft-currency common market. It made no economic sense in a free market where it spread havoc for two years after the Soviet bloc collapsed. As East Europe's...central banks were obliged to honour the transfer ruble, and they continued to honour it until it was formally abolished in January 1992. This window of opportunity allowed the Russian mafia...to rob the banks blind...Germany was hit much harder. After forming monetary union with communist East Germany, the German central bank had to pay double for the transfer ruble since it was paying in Federal Deutsche Marks that were worth twice East Germany's Deutsche Mark ...Russian crooks stood out as always. "They romped through this scam," said Jurgen Mauer, the BKA's (German security police-Author) organized crime expert. "They worked through the Deutsche Augsenhadelsbank in East Berlin using forged contracts with Russia, forged documents for goods 'made in the German Democratic Republic', forged bills of ladings, and so forth. The bank accepted any piece of paper. There were Russians murdered here for transfer rubles." ...Russian crooks were still forging back-dated documents to file new claims in 1993...Altogether the bill for scams in this category amounted to four or five times more than all the damage inflicted by domestic and foreign organized crime in Germany up to 1993. ZERV, the special German commission investigating unification frauds, put the estimated loss at seven billion Deutsche Marks for all the schemes combined about \$13 billion." ("Thiefs' World', 1994).
2. "Kommersant" reports that a large criminal organization was uncovered recently in Russia. This organization worked together with associates in England, Germany and Singapore. This association created several banks and firms on Russian territory. The Russian criminal organization used their foreign partners as bogus businessmen, who took advantage of the trust which Russians usually in foreign businessmen. In two years the criminal association had managed to steal over sixty billion rubles under the interbank credits (Shvearkov, 1995).
These are a few clear examples demonstrating how the organized criminal groups from Russia were active on an international level. But there is, of course, other information on the activities of organized crime in the financial sector of Russia and its international aspect.

3.3 Fraud

According to "Moskovskie Novosti" in Russia from 1991 to 1993 with the use of forged bank documents (letters of credit) 3-4 trillion illegally obtained rubles were put into the legal economy. About a third of it was converted into hard currency and transferred abroad (Ageev, 1995). Pochinok says that in 1993 the sum of the forged documents which were

going through the Russian banking system accounted for billions of rubles. In the Moscow city area alone there were 160 billion rubles of forged bank documents circulating (Pochinok, 1993). Zhilin: law enforcement officials report that financial fraud has reached unprecedented proportions. In 1993, Russian law enforcement agencies reported 110,000 criminal offences in the realm of finance. In 1994, this number grew to 183,000, and in 1995, to 300,000. The amount of money stolen from Russia could be as much as \$100 billion in the four year period from 1990 to 1994, according to specialists in this area. No less than 4 trillion rubles (several hundred million dollars) were stolen from Russian banks through faked payment documents and false guarantees from foreign banks during 1993-94 alone. The country lost \$20 million when state credits were illegally diverted for other purposes, according to estimates of the Main Economic Crime Department of the Russian Interior Ministry. (Zhilin, 1995).

Cases:

1. The essence of the famous "avizo" (letter of credit) case can be described as follows: From 1992 to 1993, "Izvestia" reports, the criminal association which was practically led by the organized criminal group from Chechnya had managed to steal some 36 billion rubles, by way of forging letters of credit which were cashed in at Moscow banks. Different schemes were used and many people were involved in this fraud including bank officials and even a high-ranking law enforcement official. A considerable part of the stolen money was transferred to banks in Switzerland, Austria and Singapore (Korol'kov, 1995). As a result of this fraud many banks faced bankruptcy and, reportedly, had to turn for help to the Chechen organized criminal group which organized this fraud in the first place (Shvearkov, 1995). This is only one example of this type of crime which has become widespread in Russia. During the Soviet time there were basically no crimes in the banking sector of the USSR, largely due to the strict control which was exercised and also because in a centralized economy it was difficult to get into a bank-enterprise relationship. The letters of credit had to arrive by special postal delivery and were checked almost immediately at Central Bank. However, in the case described, because of the chaos in the financial sector of Russia the letters of credit were not checked for six months. Therefore when the first forged letters of credit arrived at Central Bank in 1992 the money was transferred the same day to an account at the Moscow branch of bank "Terra-bank", from where it was immediately transferred to an account of a front-company "Contact-M" and the next day the money was transferred further to the accounts of other firms controlled by the organizers of the fraud (Korol'kov, 1995).
2. According to Zhilin, another common scheme is the diversion of credits (using fabricated documents) and deliberate non-repayment of loans. A firm wins credit from a commercial bank, securing the loan with a letter of guarantee from another bank. The borrowed funds pass through the accounts of several bogus companies and are eventually converted into

foreign currency with the help of a sham contract with a Western company. The contract is later annulled "by mutual agreement of the parties." The foreign currency is transferred abroad to a firm's bank account, and the creditor bank is left holding the bag. This scheme came to light after the death of the chairman of the board of Tekhnobank, V. Rovensky. It is widely believed that Mr. Rovensky was the first person in Russia to carry out a scheme of this sort and, according to some estimates, managed to send a total of \$140 million to foreign bank accounts (Zhilin,1995).

3.3.1 Counterfeiting

According to Smakov in Russia in 1993 an unprecedented increase in counterfeiting was registered. In 1993 he says, 7061 such crimes were registered in Russia, compared to 1989 when there were 61 cases of counterfeiting registered. In Russia in the first half of 1993 the following items were confiscated: six thousand counterfeit bills worth 50 million rubles, about two thousand forged privatization cheques [vouchers], and also 7739 counterfeit foreign currency bills worth about \$500,000 (Smakov,1-994). Smakov goes on to say that among the counterfeit foreign currency seized in 1993 there was some which had been made in Russia as well as in other countries, and included forged currency registered in the Interpol files. Such forged bills are often brought to Russia from abroad. About 90 percent of the counterfeit foreign currency seized in Russia is registered in Interpol (Smakov,1994). "Kommersant" reports that in 1994 the amount of registered counterfeiting doubled compared to 1993 and was almost 50 times as much compared to 1992 (Kirichenko,1995). According to Zhilin, in 1994 the Russian police confiscated more than 9.5 billion counterfeit rubles (Jamestown,1995). There were 2,930 criminal cases for money counterfeiting pending in 1995, which is a positive result of the work undertaken by law enforcement agencies and the central bank of Russia. In all, as a result of measures taken by the authorities, about 10 trillion rubles worth of forged rubles, hard currency and financial documents were seized in the first half of 1995. 105,000 forged notes were seized, of which almost 80,000 were 50,000 ruble notes and 21,000 were 10,000 ruble notes. 4300 forged US dollar notes were seized, also German, Swedish and other forged foreign currency, totalling about \$5 million (Kirichenko,1995). It is estimated that the number of illegal foreign currency operations has tripled since 1993 (Zhilin,1995).

Cases:

1. According to a Russian newspaper, in one case Russian counterfeiters released copies of new 100,000 ruble notes even before the government put the genuine article into circulation ('Counterfeiters become bolder',1995);
2. Law enforcement agencies say that nearly one-third of the \$11.5 billion in vouchers which have been sold at auction at the Moscow Interbank

Currency Exchange have been bought with the "shadow capital" of Russian organized crime (Zhilin, 1995).

3. A Dutch newspaper reported in 1993 that a company from St. Petersburg made a proposal to the Banco di Roma (Italy) that it should purchase vouchers (privatization cheques) for fifteen dollars each. In its letter the firm from St. Petersburg confirmed that it could deliver vouchers in unlimited numbers (Algemeen Dagblad, 1993). This was in violation of existing Russian law which provides for appropriate state control over the privatization programme.

Conclusion: (1) One of the main causes for fraud in the financial and banking sectors in Russia is the lack of appropriate control over financial transactions. Although uniquely Russian the fraud with banking guarantees shows how organized criminal groups can use fraud for expanding their operations. These fraud schemes often resume in Western Europe by placement or laundering of criminal money. "Kommersant" reports that these are indications that this type of fraud is continuing on an international level: forged letters of credits are now coming from Western Europe and further abroad (1995). (2) The rise in the counterfeiting of foreign, and West European currencies in Russia is a worrying trend for Western Europe. Information confirms that technology for the counterfeiting of foreign currencies does exist in Russia (Smakov, 1994). (3) The privatization programme started to develop actively in 1993. Apparently, simultaneously, the criminals started to make criminal profits by forging or conducting other fraudulent activities with privatization cheques. As we have seen, already by 1993 there were attempts to conduct illegal activities with the privatization cheques on an international level.

3.4 Credit card fraud

According to "Kommersant" at the end of the 80's and beginning of the 90's, when the market for credit cards in Russia was just starting to develop, the losses from credit card fraud accounted for up to 5 percent of all credit card operations (losses of 3 percent make the credit card system unprofitable for the banks). However, some measures were taken and the losses from international credit card fraud in Russia in 1994 went down to 0.21% against 0.33% in 1993. Further outlining the problem, it should be mentioned that about 35 percent of detected frauds were committed within the banks, but the real number might be higher, as some of the banks do not inform the law enforcement agencies about their problems with credit cards (Kisileva, 1995).

A. Losses caused by credit card fraud in 1994 in Russia:

VISA	0.3%
Eurocard/MasterCard	0.1%
Diners Club	0.01%

B. The percentage of different types of credit cards used in frauds in 1994 in Russia:

VISA	86%
Eurocard/MasterCard	13.6%
Diners Club	0.4%

C. Places where credit card fraud was detected in 1994 in Russia:

Food stores	19.9%
Shopping centres	34.6%
Clothing shops	8.1%
Restaurants	4.7%
Hotels	3.4%
Jewellery stores	7.8%
Electronics shops	4.6%
Casino	1.9%
Others	15%

Source: Kommersant, No. 28, 1 August 1995, pp. 28-33.

These tables show: (1) that the VISA card is most frequently used in fraud because it is the most widely used credit card in Russia and as the VISA was the pioneer in the opening of the Russian market, the criminals had some time to prepare their techniques. Other major credit cards are also used in fraud but to a lesser extent, apparently depending on how widely and for how long the credit card is used in Russia; (2) the places where credit card fraud was detected are quite diverse and cover a wide area. The table gives some information which can help to establish possible places where fraud with credit card fraud might occur in Western Europe. It has to be taken into account also that the financial loss from fraud in a clothing shop and a jewellery store can be very different because one piece of jewellery, for example in an Amsterdam diamond shop, might cost

thousands of dollars while it is unlikely that articles of clothing would cost that much.

Cases:

1. "Moscow Times" reports that in one case the credit card number of a senior Dutch diplomat was copied at a Moscow hotel and then sold to the criminals, who made a fake plastic card that carried a Russian name but the number of the diplomat (Gulyayev,1995);
2. "Kommersant" reports about the case of fraud with VISA cards of "Kredobank" (Russia) which took place in August 1994 in Moscow. The two perpetrators, allegedly, Chechens, had stolen \$150,000 from the Moscow bank "Sberbank Rossii". The perpetrators took advantage of the telephone verbal authorization system used by the UCS company which is responsible for the confirmation of cards. They opened an account in "Kredobank" with about \$1000, using one stolen and one forged passport. Six or seven times they visited bars and restaurants, each time spending about \$100. The goal was to study the system of authorization. After they had studied the system, they managed to intercept the telephone call of an operator using special equipment after which they gave a false confirmation code which allowed them to cash in on the credit card. According to the Russian expert there were more than two people involved, probably somebody at the bank and others who supported the operation (Kisileva,1995);
3. "Kommersant" also reports that in a typical case a group of Russian citizens create, for example, an off-shore financial intermediary company in the West and open an account in Citibank or in one of the other banks. The new company guarantees so-called corporate credit cards of a big Western bank to its clients (Russians), in other words the cards of a bank which the company control. It requests a credit card for the company with other cards with smaller limits for clients. The money of the Russian clients is put on company account in the bank. That means that the owners of the company can manage this money including the transfer of it to other banks. It can happen that the money is transferred to other banks or is taken in cash by the owners of the company and when the limits exceeded the bank blocks the accounts of the Russian citizens while company owners disappear ('Citibank stal luchshim agentom banka Rossii',1995);
4. "Izvestia" reported that two German nationals were arrested recently in Frankfurt-am-Main: one was a student and the other was unemployed. Using forged credit cards they purchased goods valued at about 150,000 DM. According to the German law enforcement official, it was the first time that credit cards with almost perfect magnetic lines had been seized in Germany. Investigations led to a former Soviet citizen from Armenia, who had been wanted by the German police since March 1995. He was in possession of about 50 forged credit cards with genuine data on them. The clues led to a bank in the United States. According to the German police there either somebody in the bank who provides the

genuine data or the criminals have managed to penetrate the bank's computer system. The majority of the criminal group (15-20 people) were resident in Los Angeles (U.S.A.). Apparently the group consisted of Armenians, Georgians, Russians and also Iranians and Iraqis. They also had a group in Moscow (Russia) which was responsible for recruiting foreign tourists and businessmen as potential card users. The latter, after receiving high-quality forged cards, make purchases: 30 percent they would take for themselves and 70 percent they would send to the U.S.A. In 1995 the German police arrested seven Indonesian and two Russian nationals who tried to use over 150 forged credit cards. According to the German sources, "Izvestia" reports, the main route for forged credit cards is Los Angeles - Frankfurt-am-Main - Moscow (Leasenko, 1995).

"Kommersant" reported about different types of credit card fraud: (1) use of stolen cards; (2) use of partially forged cards: replacing the signature and data on a stolen card; (3) manufacture and use of completely forged credit cards. Besides special technological equipment there is a need to have access to credit cards through, for example, restaurants, shops etc. to give forgers an opportunity to copy the card surface; (4) Kommersant mentions that in Russia the capability exists to make forged credit cards based on the electronic chip (Kiseleva, 1995).

Conclusion: It can be said that the cases concerning credit card fraud usually involve relatively small groups, yet they display all the characteristics of serious organized criminal activity. That is to say, (1) they are organized and disciplined, (2) often they are connected with corrupt bank officials, (3) their operations consist of different stages (extensive preparation e.g. forging of the credit cards, recruitment of people; reconnaissance; a primary stage such as checking whether a forged card works and an advanced stage such as actual operations with the forged credit cards). It is also important to mention the necessary technology exists in Russia to forge practically any type of credit card. Lastly, (4) the internationalization phase makes this line of criminal business very attractive indeed, because the possibility of operating from different countries substantially reduces the threat of detection. With a vast number of people getting access to the credit cards as a result of Russia joining the international financial system, credit card fraud is likely to increase substantially both in Russia and in Western Europe.

3.5 Electronic wire transfer

The use of technologically advanced computer systems in the Russian banking sector interacting with Western banking systems enhances the electronic wire transfers, whereby money is transferred, processed and interpreted entirely electronically, without any of the human intervention

(Wyrsh,1992) there was in the old system. This diminishes the controllability of financial transactions. Moreover, a tendency to establish cross-border networks within banks (Zagaris and MacDonald,1992), which would assure the speedy transfer of money, especially necessary in the environment of high inflation in Russia, makes policing of the transactions extremely complicated indeed. All of these factors facilitate the internationalization of organized criminal activities in fields such as money laundering, also between Russia and Western Europe.

Cases:

1. According to "Izvestia" in August of 1994 Vladimir L., a software specialist from St. Petersburg operating from Russia, stole almost \$2.8 million from New York Citibank. He transferred the stolen money to the accounts of his friends in the United States and Israel (Guseynov,1995). He also, reportedly, transferred around \$1 million to the account of "Auto-Rik", a company at one of the banks in the Netherlands. Vladimir L. was arrested on March 3, 1995 at London airport as he entered the United Kingdom (Shalnev,1995). Police in St. Petersburg made six more arrests in September 1995 in connection with the theft by computer of \$10 million from Citibank. Bank and law enforcement officials say a gang based in St. Petersburg broke into the bank's computerized system on numerous occasions and transferred money into their accounts. Several people have already been arrested outside Russia and are facing charges in the U.S. (Morvant,1995). According to the Russian experts Vladimir L. used Internet channels to penetrate the computer systems of "Citibank" (Leskov,1995);
2. According to "Izvestia", an operation to break into the computer system of a West European bank takes about six months to prepare, costs at least \$25,000 and involves a considerable number of people. During the preparation period, reportedly, necessary connections are established with the personnel in the bank which is being targeted for the computer break in, the bank where money will be transferred and the bank where money will be taken from. People in a Moscow telephone station are also hired for the operation. In addition, a small flat is rented under a false name in one of Moscow's districts where all the equipment is brought, including a small power generator which would ensure the main operator could work independently in the event of power failure in the flat. Besides the main operator there would be 10 to 12 operators with computers working with him. One computer would not be able to manage the break into the bank computer system on its own. The ultimate objective is only known to the main operator, those who funded the operation and a few others. The rest know only their own tasks. The break into the bank computer system is made not through the computer network - where the chances of detection are high - but via the telephone line. At a certain X time thirteen computers attempt to break simultaneously through the computer system of one West European bank. The computer protection system of a bank cannot adequately react

to this amount of pressure. It is able to repel 4 to 5 "attacking" computers, and the rest are able to break through. One of the computers blocks the system of statistics of the network - which detects any signals in the network - so it would not be able to detect the break-in. Four computers, sustaining each other, begin to break-in directly to targeted sector of a bank, the rest are busy with fictitious bank transactions. If the break-in is detected an officer responsible for the security of the bank contacts Moscow and requests the identification of the telephone number of the main operator. In this event a person at the Moscow telephone station, who was hired for the operation, gives the wrong number while the main operator gets out of the operation. If there is no detection, the main operator sends a money order and then the rest of the computers jam the computer system of the bank by making numerous simultaneous transactions. The money is transferred from one bank to another five or six times in order to cover tracks and then it is moved abroad for money-laundering. After about a month laundered money is being transferred to Russia. Reportedly, this scheme was used by Moscow hackers who, working under contract for one Moscow firm, broke into an Austrian bank and blocked its computer system for one day (Kakotkin,1995);

3. "Izvestia" reports that recently a group of Russian hackers working under a contract [for a Russian company or criminal group] broke into the computer system of a big West European bank. By introducing a virus into the bank's computer system they blocked the work of the bank for one day. The bank sustained losses of hundreds of thousands of dollars. The operation cost several dozens of thousands of dollars of which 20% was for the hackers (Kakotkin,1995);
4. The same source says that in spring 1995 a group of Russian hackers working under contract for a big Moscow-based criminal group stole \$140 million from one Western bank. The bank did not take any action because the money was, allegedly, not "clean" (Kakotkin,1995).

Conclusion: The example of the computer hacker in St. Petersburg shows how vulnerable the computer system of a big bank can be, even if a perpetrator operates from Russian territory. Furthermore, it can be said that an organized group was involved as Vladimir L. was not acting alone. There were more than five people involved in different countries, forming an international criminal chain. Moreover, this case demonstrates the level of know-how which is present today in Russia. One of the leading Russian software specialists, points out that the level of protection against computer hackers is not very high. According to him, Russian mathematicians are able to open Western banks' electronic codes as they are able to bring many new ideas to this field (Guseynov, 1995). There are also indications that criminal organizations from Russia use computer experts for criminal purposes. This is an indication that organized criminal groups from Russia have the capacity to use high-technology methods.

3.6 Money-laundering

One of the definitions states that: "money laundering is the process by which large amounts of illegally obtained money...are given the appearance of having originated from a legitimate source...The funds to be laundered usually start as cash and go through several stages to make it difficult to trace them. The first is "placement", when cash is deposited at a bank or changed into another form of asset - e.g. foreign currency, real estate, gold, art. It is followed by "layering", when complex layers of financial transactions are created to obscure the trail followed by auditors. The final stage is the complete "integration" of the funds into the legitimate financial system. These transactions are made easier by the widespread use of electronic payment systems, allowing assets to be transferred rapidly around the world between accounts held in different names." ("Money laundering", Background brief, Foreign & Commonwealth Office, London, October 1993, p.1). According to the working definition of money laundering by the Financial Action Task Force given in 1991 (Eurostudy, "International money laundering", Chapter 2, 1991, p.6.): *Placement* is the physical disposal of bulk cash proceeds with the goal of removing it "from the location of its acquisition" to avoid attention (...) "Placement" is the initial cycle in the laundering process. It represents the infusion of cash proceeds into traditional or non-traditional financial institutions, into the retail economy, or cash being smuggled out of the country of origin. It is the weak link in the money laundering chain, said Task Force (...) *Layering* is the separation of illicit proceeds from their source by creating complex layers of financial transactions designed to disguise their audit trail, said Task Force (...) The complicated way in which layers of transactions are added to one another makes the tracing of the illegal proceeds difficult (...) *Integration* is the final macro stage. It gives the final coat of apparent legitimacy to criminally-derived wealth. After the layering process, the money launderer needs to provide a legitimate appearance to his wealth. Integration places laundered proceeds back into the economy in such a way as to make it appear as normal business earnings. At that point it becomes extremely difficult to distinguish between legitimate and illegitimate wealth. Detection and identification of laundered funds at the integration level is normally possible only through undercover infiltration, informant assistance, and usually, a little bit of luck" (Eurostudy, 1991, p.p.7,9,10). Article 172 "Legalization (laundering) of financial assets, which were obtained illegally" in the draft of new Russian criminal code gives the following definition: "Conducting of financial operations with money or property which was deliberately obtained illegally or use of such assets for conducting legitimate entrepreneurial or other economic activity" (Proekt Ugolovnogo Kodeksa, 1995).

Money-laundering is the most important problem Western Europe is facing from the activities of organized crime in Russia's economic and financial sectors. International experience shows that not only big drug cartels are in-

volved in money laundering but also other criminal organizations which are involved in all sorts of illegal practices. Petrenko points out that most of the organized criminal groups in Russia (over 3,000 groups) are in one way or another involved with money laundering (Petrenko,1995). "Moscovskiye Novosti" reports that in 1994 about 700 structures were established in Russia's economic sector with the purpose of laundering money (Ageev,- 1995). Ageev stresses that about two thirds of the laundered money is going to the "re-production" (Ageev,1995) of activities in the criminal sector and a fifth is invested in real estate (Petrenko,1995). The Russian "...authorities believe that a huge amount of money - perhaps the equivalent of US \$15,000 million is being laundered overseas, some of it through the City of London" (Yeltsin campaign against crime,1994). Jack Blum writes: "...incredible place for this placement of [criminal] money is now Russia and the former Soviet Union. Money is being shipped there in excess of \$100 million a week from legitimate banking institutions. And the reason is that the dollar has become a second currency. From all over the world, criminals are shipping cash to the former Soviet union and then converting it into legitimate bank accounts by buying commodities, and by buying materials that they can then sell in Western Europe and for which they have a legitimate trail. It is a horrendous problem" (Global Financial Systems Under Assault,1994,p.25). "Moskovskiye Novosty" reported that \$16 billion have entered Russia to be laundered in the country, mostly from the countries where narco-business flourishes (Latin America) and some of the developed countries (U.S.A., Italy) (Ageev,1995). The emergence of organized crime in Russia is one of the major elements in international money-laundering, money-laundering bulletin reported (Fooner,1995).

Cases:

1. The Russian journal "Segodnya" reported a police investigation in the Summer of 1991 in Moscow on the activities of a Russian firm "...'Osmos' which specialized in computer intermediary trade operations...in the course of the investigation financial irregularities and fraud, which facilitated the laundering of mafia money were uncovered. One of the biggest of such operations was a deal where 10 thousand personal computers were brought to Russia. For this deal ...the firm had received 150 million rubles from the Savings Bank of the Russian Federation...the sum was supposed to be transferred to private accounts through the West German firm "Fortex." ('Smert' Mansura', 1991, p.7.)
2. Here is a good example of "domestic" money-laundering in Russia: "One of the channels for "laundering" money by sponsoring the production of films. This is the story of one of the country's biggest producers and the manager of a studio. His film - a sequence to a very popular picture - was made for approximately a million rubles (this happened two years ago) and was quickly sold for 3.5 million. The studio and the author approved of this as they were able to start production of a new film immediately. But then it became clear that the

film which had been sold had hardly appeared on the big screen. The purchasers were openly indifferent to the fate of the film they had bought with regard to hiring it out - they did not even appear on the advertising posters printed at their expense. The producer was simply unable to find out the fate of his film. But he understood the mechanism of the operation. A "shady" firm needing to legalise a large sum of money buys the film; for a small recompense it creates the appearance of having hired it out, and then it transfers to its bank account massive sums said to have been obtained from hiring out the film" ('Taking the profit out of crime', 1994).

3. Stephen Handelman writes: "One 1992 case, in which seven billion dollars in suspected drug profits were brought from Europe to Russia, exchanged into rubles and then re-converted to dollars for transfer to Switzerland, elicited a kind of backhanded compliment from Swiss authorities after investigators tried unsuccessfully to prove Russian official involvement. 'It is difficult,' the examining magistrate, whose name was Jean-Louis Crochet, responded drily, 'to make a distinction between private and official parties'" ('Comrade criminal', p.240).
4. The complexity of the money laundering problem can be seen in the movement of finances in and out of Russia. An example of so-called capital flight. Fooner says that the money-laundering is simplified by the rise of the free market in Russia, facilitating transfers of large sums of cash (Fooner, 1995). "Kommersant" reported an attempt recently in Russia to call an amnesty for most of the money which left Russia [illegally]. This notion was met with scepticism by some Russian experts (Danilkin, 1995), as the amnesty ignored the problem, which is two-fold. On the one hand, it is clear that the authors of this amnesty did not wish to facilitate the money laundering process. They wanted to return the money which was moved out of Russia in violation of tax regulations. However, the return of criminal money to Russia is often the necessary step in money laundering schemes, so the criminal groups are interested in moving money back and forth across the borders. On the other hand, most of the Western investment funds which are now active in Russia are being formed from the Russian money which was taken to the West (Galiev, 1995) both illegally or otherwise. This mix of capital flight and the movement of organized crime monies really complicates the situation, by blurring the borders between the legitimate and illegal movement of finances cross the borders in and out of Russia, says "Kommersant" (Galiev, 1995).
5. In Germany, according to 'The Geopolitical Drug Dispatch', "...besides prostitution, Russians (criminals) specialize in money laundering, fraud and other financial crime. With help from German partners, Russian "sport clubs" (those of Dolgoprudnaya area of Moscow are often mentioned) have started investing in real estate with the profits from extortion, the drug trade, and trafficking in works of art (...) Mr. Schmidbauer, Chancellor Kohl's minister for regional coordination, could wrote in a report published as early as 1993 that "laundering

networks move funds worth some DM 320 billion" (about \$250 billion). He thinks that this money originated mainly from the Balkan route and the activities of the Russian mafia (1995,p.4).

6. Two Russians were arrested by Scotland Yard in May 1995 suspected of laundering funds from Russia. They were also involved in criminal financial dealings in the US, Canada, and Austria. Russian television said that more than 20 people were involved, and that Scotland Yard believed the ring's head was still in Moscow. Moscow newspapers have stressed the Chechen connection, but Moscow television's comments underscore British arguments that ethnicity had very little to do with this criminal ring ('Russian money-laundering in London',1995);
7. "Moskovskie Novosti" ran a big article on money-laundering in 1994. According to it, as the result of fraud with forged letters of credit in 1992-1993 in Russia, organized criminal groups started to develop their own money laundering techniques. For example, some commercial structure (head-firm) which belongs to a criminal group establishes a so-called buffer zone consisting of numerous [front] firms which in actuality are its subsidiaries. As a rule they are spread throughout the country with accounts in different banks. For example, the head-firm signs a contract with its own front-company from another region of the Russian Federation on delivery of agricultural products. Immediately a forged letter of credit, which confirms the receipt of goods, is put into circulation. After multi-level combinations or layering the money is put into the account of the head-firm. This is the stage where money laundering has to begin. The head-firm instantly transfers the "dirty" money to an account of another front company again under a fictitious contract for the purchasing of goods. From outside it looks like a legitimate deal: the head-firm acts as a mediator. At this stage money is received in cash and sent (abroad) leaving no traces. The firms are dissolved and at this point the money is completely controlled by organizers and ready to be integrated into the normal economic process. "Moskovskie Novosti" reports that in Russia in 1994 429 criminal groups were detected who specialized in fraud in banking sector (Baranovsky,1994);
8. Another scheme, "Moskovskie Novosti" reports, is when the head-firm in Russia creates two front companies, which have no obvious connections with it. As the result of fraud with forged letters of credit the head-firm puts money on account of front company D. This company transfers "dirty" money to Western Europe after which it is dissolved. In Western Europe "dirty" money is going through banks in countries A and B to covering the trace. Than money is transferred to an account of a firm - which is either a partner or a subsidiary of the head-firm in Russia - in country C. Then money is transferred under contract on delivery of some goods: spirits, food, clothing, machinery etc. These products are transferred to the front company specializing in import. The front company immediately "re-sells" the products to the head-firm after which it is dissolved. At this stage the products are sold

in Russia. The income from this is the laundered money which is being put into the normal economy, says "Moskovskie Novosti" (Baranovsky,1994);

9. The money-laundering bulletin reports that in Finland, Russian organized groups have taken over clubs and restaurants to facilitate money-laundering, and have begun to set up protection rackets. Also in Britain and France, Russian crime groups are known to be investing in the property markets. Cyprus has become a favourite destination in the process of money-laundering from Russia. There are some 3000 Russian companies registered in Cyprus, however many of them are just front companies (The money-laundering bulletin,1995);
10. In 1992 "Izvestia" talked about the threat of a big stream of money which would be laundered in Russia using the privatization programme. Kovalenko talks about billions of dollars which organized criminal groups are ready to invest in the East European economy. Austria was named as the country where financial transactions can be conducted autonomously (Kovalenko,1992). In 1992 money laundering was already a serious problem. Head of the international department of the Russian Ministry of Justice Ivan Korastelev pointed out that it was not the lack of laws but of funds, structures and technologies which hinders Russia's fight against money-laundering from abroad. He said the co-operation between Russia's criminal groups and international criminal gangs began when the opportunity arose to take advantage of privatization for investments, creating a parallel "shadow" economy. According to Korastelev, the real information on laundering money from abroad in Russia is known to very few law enforcement officials who do not want to share it with others. The problem of lack of information on money-laundering in Russia is also stressed by D. Grifits, secretary of the financial task force. He said that as soon as reforms are introduced it is important to take preventive measures, otherwise the whole financial sector will be threatened because it will fall under the control of international organized syndicates (Kovalenko, 1992);
11. According to "Izvestia", one of the schemes used for laundering money from abroad in Russia is called 're-export': "dirty" money is invested in the purchasing of Russian raw materials which will be sold abroad. For example, commercial structures from the CIS (mostly Russia) in the first seven months of 1993 had an income of over 15 billion Francs from this kind of re-export of Russian oil products and metals to France. 98 percent of these exports went through Ukraine, Latvia, Lithuania and Georgia. In 1993 Russian authorities seized 97,800 tons of oil and 17,800 tons of metals which were illegally leaving the country. Besides investment of "dirty" money in Russian trade, it is also being laundered through investments in real estate and promising commercial projects including financial projects in Russia. Casinos in Russia have proved to be a good place for money-laundering. In Moscow there are about 100 casinos half of which are controlled by criminal groups. The characteristic feature of Russian casinos is the

flow of money from abroad which passes through the casinos, then comes out as winnings from gambling and is brought back across borders. This is just one way of laundering money from abroad in Russia. Another way of money laundering is in the form of criminal money being invested in the Russian oil and metal trade. These commodities are bought in Russia and subsequently sold in the West. Money from these deals end up in Swiss banks (Baranovsky,1995);

12. According to Sterling, "...the Sicilian Mafia, which has now been entrusted with a good deal of money-laundering on behalf of the Colombian cocaine cartels as well as for its own activities, can get in Russia (...) a 25 percent cut from the Colombian cocaine cartels for the money the Mafia is laundering on their behalf. On top of which, it can invest in Russian commodities for export for currency, which comes out of clean currency at a profit of 200, 300, 400 or 500 percent" ('Global Organized Crime',p.109).

Conclusion: The problem of money-laundering from or in Russia is a very complicated subject. There is a need for further research in this field as the money laundering connected with Russia has a strong involvement with international trade and finance. In addition the impact of money laundering is connected with the integration of Russia into the international financial system. Based on collected information it can be said that a huge stream of criminal money is channelled from Russia for laundering abroad, including Western Europe. There is also, apparently, another huge stream of criminal capital from abroad which is going to Russia to be laundered. These trends manifest a tendency towards an amalgamation of transnational money laundering which is unlikely to be matched anywhere in the world.

3.6.1 Capital flight

It seems appropriate at this stage to cast light on the phenomenon of capital flight from Russia. Some Russian experts connect the problem of capital flight with organized crime activities as the possibility exists that in some cases it may be a part of the process of laundering money from Russia or simply the way organized criminal groups transfer their money to foreign countries. The phenomenon of capital flight in this respect can be defined as those economic activities which deprive the state of hard currency by transferring or depositing funds abroad in violation of existing regulations. Although it is difficult to say exactly how much of the capital flight from Russia is responsibility of organized crime, the relationship is clear. In Russia "...in 1991-1992 approximately one-fifth of the national income disappeared as capital flight. One in four Russian export dollar is deposited in foreign banks" (Kuznetsova,1994). Most of the sources estimate the capital flight from Russia at about 1-2 billion dollars per month (Ageev,1995;Fooner,1995). "Moscowskiye Novosti" reports that between 1992 and 1994 20 to 40 billion dollars were transferred from Russia to accounts in foreign banks (without counting the real estate investments etc.) In

all the capital flight is estimated around \$100 billion (Ageev,1995). According to "Chelovek i Zakon" the real figure might be much higher. It would include money which the Russian government and its agencies have deposited in the West in case of unforeseeable events. However, the biggest part came from the shadow economy of Russia: some \$30-40 billion (Suhoparov,1995). "Izvestia" reports that according to Russia's Federal currency exchange bureau and export control, illegal capital flight as a result of fraudulent operations has become one of the main sources of income for the Russian criminal organizations (Beleah,1995).

According to "Izvestia" one out five criminal operations on illegal transfer of capital from Russia began with the establishment of fictional commercial enterprises. Six out of ten of such bogus firms were established in Moscow. 75 percent of those involved in the illegal transfer of money from Russia are working in the private sector and only three percent are from the public sector. Of those over 65 percent are the directors of the enterprises, banks, and private firms, says "Izvestia". In one out five cases of illegal transfer of capital the front companies and their personnel were used (Alexsin and Petrenko,1995). "Izvestia" goes on to say that sometimes hard currency is bought under bogus contracts for the would-be-purchase of goods abroad. In reality money is deposited in foreign banks or invested in real estate abroad. In 1994 through this fraudulent system \$0,5 billion disappeared from Russia every month making \$6 billion for the whole year. According to Suhoparov money is also taken from Russia in cash or on credit cards (Suhoparov, 1995).

4 Impact on Western Europe

It has to be said again that this report contains factual information from mainly Russian periodicals so there is not a sufficient basis for objective evaluation of the situation. Nevertheless, some conclusions can be drawn from what has been compiled in this report and therefore this part is dedicated to the negative developments which might influence Western Europe as regards organized criminal activities in the economic and financial sectors of Russia. The impact on Western Europe might be divided into two main categories: direct and indirect.

Direct impact

The direct impact is the main category. Yergin and Gustafson write: "...the mafia threatens the entire economy. It does not discriminate: kiosk operators, Russian bankers, and Western businessmen have all been summarily murdered for failing to respond to mafia demands, or simply for getting in the way. The rise of criminality runs as a growing concern through all Russian-Western business relations" (1994,p.241). This last point - internationalization of organized crime in the economic sector - will be treated more extensively later. In the first chapter the aluminium business in Russia was cited as an example. The bottom line is simple: organized criminal activities in the economic sector of Russia during the transition period mean problems for Western Europe. There are some indications that uncontrollable trade in aluminium from Russia has damaged West European markets. There are also indications that organized criminal groups might be partly responsible for this trade. Furthermore, it might be the way through which capital of organized criminal groups is finding its way to Western Europe. All these factors constitute a direct negative impact on Western Europe. In the second chapter the forms of organized criminal activities in the financial sector show a tendency to cross borders to Western Europe. The rise in the counterfeiting of Western currencies in Russia is an obvious threat to Western Europe. Although unique to Russia's financial system in the period of transition, fraud in its banking sector shows how organized crime in Russia makes its considerable profits and in some cases transfers them to Western Europe. Credit card fraud is another threat to Western Europe and there are signs it has already crossed the borders to the Western Europe. Illegal electronic wire transfer schemes or bank computer break-ins are indications that organized criminal groups have the potential to go "high-tech" or at least are able to use the skills of computer experts for criminal purposes. The laundering of money is another major problem which confronts Western Europe. David Vaness of New Scotland Yard says: "The present impact of crime from central and eastern European origins within London is money laundering. You would expect that. London is the closest of the three great world financial centers to central and eastern Eu-

rope" ('Global Organized Crime', 1994). What is the real scale of the laundering of money from Russia in Western Europe? Where do the criminal groups channel their money in Western Europe? What is the real impact on the West European financial systems of criminal capital from Russia? These and other questions still awaiting comprehensive answers.

Indirect impact

The oil industry in Russia which was discussed in the first chapter serves as an example of how organized crime gains considerable profits and goes international through investments or business connections in Western Europe. An indirect impact from this internationalization phase will be discussed later. Another example of the indirect impact on Western Europe from the activities of organized crime in Russia's economic sector is seen in the possible threat or use of violence against people, who are somehow connected with Russian business and now reside in Western Europe. The same would apply to criminal leaders some of whom, as Russian newspapers often report, either reside in or travel to Western Europe. David Vaness of New Scotland Yard: "Some Russian criminals - and here I include Chechen, Azeri, Georgian, and Ukranian - strike us as different, not only in what they do but the way that they do it. The ruthless use of violence gives us cause for concern" ('Global Organized Crime', p.98). Another alarming example of the indirect impact would be a discriminatory policy used against Russian entrepreneurs who are trying to do legitimate business with the West. "Kommersant" stresses growing suspicion in the Western financial community towards capital from Russia ('Citibank stal luchshim agentom banka Rossii', 1995). There have been numerous publications in Russian periodicals giving examples of how some Russians are being discriminated against in Western Europe because of the fear of organized crime from Russia. Some Russian authors pose the question of who really needs this new threat of "Russian mafia" in the West, implying that some forces in the West would benefit politically from exaggerating a new threat from Russia to the West: the cold war type of threat is replaced by the new "mafia" threat. Furthermore, there were publications in Russian periodicals accusing, for example, West German secret services of establishing contacts with criminal groups from Russia and deliberately creating a fuss concerning the trade in nuclear materials from Russia. In the same vein is the opinion published in "Izvestia" that Western secret services are behind recent Citibank computer break-ins. This information is quite disturbing because it shows the probable causes which would only have a negative impact on overall Russo-Western Europe relations.

4.1 Internationalization of organized crime

The following section theorizes on the background for the internationalization of organized crime in the economic sector of Russia, bearing in mind that it will have a direct or indirect impact on Western Europe.

Addressing the problem of internationalization of organized crime, Claire Sterling writes: "...the Russian Mafia organizations have moved very quickly into the rest of Western Europe (...) moving first across the border into Western Europe from East Berlin and from there spreading through Belgium, Holland, Britain, Italy, and especially all through Germany. They have used a triangular arrangement (using the same forces, the same front company, the same export/import companies for their own traffic) between Berlin, the western coast of the European Continent and the United States (...) this is the biggest multinational or fastest growing multinational organization in the world" ('Global organized crime', p.109).

Cases:

1. According to Gurow, between 1988-1990 an international swindler from Russia, K., created about 80 branches of his company "Biokor" in different regions of the Soviet Union. Together with other foreign nationals he established firms in Bulgaria, Ireland, Austria, West Germany and other countries. None of these companies had any financial assets. The Bulgarian branch of this enterprise was established with forged documents. The economic activity of this enterprise was based on obtaining and misusing credits. K. and his accomplices had stolen and embezzled about 10 million rubles (about \$1.5 million) of which 4 million rubles were illegally transferred abroad. K. had connections in the legislative and executive branches, the KGB and the Ministry of the Interior. He even managed to deliver to the Ministry of Interior non-functioning computers for 7 million rubles. In 1990 K. moved to Austria, to avoid being arrested." ('Krasnaya Mafia', 1994);
2. Citing a report which was published in Italy, Claire Sterling writes: "...with the opening up of the borders of Russia and the former Soviet states and the introduction of what is called - laughably, perhaps - the free market economy, the possibilities for commerce, for simple consumer goods for which the Russian population was starved, were immediately obvious to Camorra, the Mafia, and the 'Ndrangheta, but especially the Camorra and the Mafia. So, they worked out a deal with the Russian Mafia whereby they opened factories in southern Italy to manufacture jeans, fake watches, and all kinds of consumer goods for which the Russians had been starved. They are now producing these consumer goods in vast quantities, and they have the Russian Mafia as their distributor inside Russia. This is a multimillion dollar enterprise that is totally protected, from beginning to end. The factories that have emerged are giving employment to the unemployed in the south of Italy, which means a good deal of political cover is now available despite the effort to fight organized crime inside Italy. (It is very difficult to fight any creation of new jobs in southern Italy, in Naples, in the south.) And, of course, the distribution of Western consumer goods, Western jeans, Western shoes, Western shirts, Western fake Valentinos and Armanis is a source of great pleasure to Russian consumers" (Global Organized Crime, p.108).

4.1.1 The background of internationalization

Taking a little digression, let us take a look at the recent developments in the world's economy. The structural changes (Strange, 1992) which have been taking place in the world's economy since the end of the World War II, has challenged the old order as now the nations are competing for wealth rather than power over more territory. Singapore's success is an example of how wealth can be achieved within a small territory. The structural changes consist of: (1) technological change (the speeding up of the production process); (2) capital mobility (the liberalization of international finance) and (3) trans-border communications and transport (an intensification of the flow of information and goods across the borders). The economies which were able to take advantage of all these factors were able to hold on to a good share of the world's markets. The Western economies were able to deliver high quality products as a result of technological change. The liberalization of international finance removed the old difficulties of raising money for investment. The real cost of trans-border communication and transport decreased, contributing to the development of international trade.

Western economies were producing high quality products, but the demand for these high quality products in the Former Soviet Union could never be met by the supply within the Soviet economy. Also, a difference between the official hard currency rate and the unofficial rate made the trade between the West and the former Soviet Union a very profitable enterprise indeed, even though it had a semi-legal status. It can be said that there are two important factors relating to the trans-border "shadow" transactions between Western Europe and Russia of which organized crime take advantage: the currency fluctuations and difference in prices (Andrade, 1993). Furthermore, there are three stages of trans-border transactions, including "shadow", transactions: (1) international trade in goods and services; (2) international flow of capital or transactions in assets including acquisition of real estate and (3) movement of people across the borders (Henderson, 1992). We can divide the trans-border illegal transactions into two periods: before and after (1991) the fall of the Soviet Union.

(1) International trade

During the Soviet era the trans-border transactions, except for the relatively rare large illegal operations, were mostly concentrated around small trade operations such as, the then illegal, speculations with Western-made products (clothing, perfume) and hard currency (if the official rate was \$1:1 ruble, the unofficial rate would be \$1:5 ruble, this created a "black" market of hard currency exchange). This formed a part of the shadow economy which was especially vulnerable to racketeering (extortion of money or other asset under the threat or use of violence). After the beginning of "perestroyka", most of these activities were still semi-legal, but were taking a more and more organized form. This applies to both sides: those who

conducted those activities and those who controlled these activities or, simply, racketeers. The organized criminal groups in the former USSR always shown their interest in that trade where profits could be made rapidly, especially when it involved Western Europe with its high quality products and hard currency. Ever since the introduction of the Law on the Joint Ventures (1987) between foreign and Russian enterprises, most of which specialized in intermediary trade, there were constant indications that criminal groups were creating, controlling or trying to exert their influence over them. Apart from that, the legal and semi-legal trade with the West was intensifying. For example, between 1987 and 1990 there was a great demand for computers in the Soviet Union, with computers purchased in the West costing up to 150,000 rubles in Moscow. Even if the unofficial rate was \$1:15 rubles, bought in Western Europe a \$2000 computer if sold in Moscow would make several hundred percent profit on purchase price. Such a lucrative trade, which was still semi-legal, did not pass the attention of gangsters in Moscow. They could force a computer trader to pay out more than half his profits. If one criminal group controlled only one channel of computer trade, it was able to make hundreds of thousands of dollars in less than a year. This is just one example of how Moscow's gangsters made their money. The trade transactions from the Soviet Union to the West were not as significant. Caviar, icons and watches were the items which had a market in the West. With the launch of the cooperative movement in 1986, one of the first and most lucrative private trade deals between the USSR and Western Europe took place. Cooperative "Tekhnika", headed by Mr. Tarasov, sold a big shipment of copper to one of the West European countries, making over 3 million rubles in profit. I would say that this was a turning point for the trading relationship between Russia and Western Europe¹, with new entrepreneurs not hesitating to take advantage of the astronomical differences between the prices of various commodities and products in the West and Russia such including copper and aluminium. It did not take long for the organized criminal groups to take notice of this lucrative trade and from that point on the organized criminal groups were seriously involved.

(2) International flow of capital and (3) movement of people

With the dismantling of the Soviet Union [after 1991] the links between different systems and branches of law enforcement have been substantially weakened which has contributed to the environment of impunity in which organized crime has flourished. The criminal sector actively capitalized on the previously mentioned factors [international illegal trade connections] and new opportunities which were created by the virtual uncontrollability of international economic transactions. By 1991 the money which had been accumulated by the organized criminal groups in Russia amounted to

¹ It would be logical to presume that during this period the first working contacts between private Russian and Western entrepreneurs, some of whom were, undoubtedly, involved in illegal business [trade] practices in both Russia and the West, were established.

millions of dollars. Most of it was channelled to the *international flow of [criminal] capital* e.g. flow of funds to the West (and other countries). The fact is that when the money crosses the border from Russia to the West, especially from organized economic crime activities, it becomes increasingly difficult to prove that this capital is not "clean". Similarly, the capital which comes from abroad is not properly checked due to the present situation in the Russian economy, and this simplifies the money-laundering process (Glinkina,1995,p.390). The flow of criminal capital can be divided into three main forms: (1) business-like activities, (2) acquisition of real estate (also in Western Europe), (3) deposition to the banks. An example of (1) business-like activities is seen in the Joint Ventures. In 1992, Terechov of Moscow's Interpol said, referring to the Joint Ventures: "Only a quarter deal with their declared activities. Two or three out of five are financed with money of dubious origins. Many Joint Ventures are fictitious. Often they are one man operations to swing hard currency deals (...) at least five hundred of our mafia groups use them to link up with international crime..." (Terechov,1992). Further, (2) acquisition of real estate, as part of the international flow of criminal capital, is one of the most important, tangible and sound investments which an organized criminal group could make in the West (Drozdova,1994) as they gain a foothold in the territory of the Western country, with the minimum risk of being stopped. (3) Depositions to the banks are, apparently, the most common form of criminal capital flow to the West. Again, the chances of being detected among the stream of capital flowing from Russia is minimal (Galiyev,1995). Even investments within the territory of the former USSR are often designated to support the export (Kirichenko,1995) activities of organized crime in the economic sector. Another important factor which contributed to the internationalization of organized crime in the economic sector, was the intensification of *movement of people* across borders e.g. ability of people to travel from Russia to the West and from the West to Russia more freely. People, including the representatives of the organized criminal groups could, as they had the necessary money, travel which means they could gather the necessary information and establish the necessary contacts (Williams,1995,p.67), in other words engage in networking.

Cases:

1. David Vaness, also referring to the crime from Eastern Europe, said: "...there are increasing examples of links between local overseas criminals. This occurs mainly, at the moment, on the basis of individual collective business contacts among UK professional criminals and reflects common interests between overseas organized crime and domestic criminal networks. The potential for such broader partnership is inevitably destined to grow, and there are indications that those links have already been made" ('Global Organized Crime',p.99);
2. According to Stephen Handelman, "the Chechens began their international networking well before the Soviet Union collapsed: their stolen car operations made them contacts in Turkey and Eastern Europe. After

1991, their improving financial base in Russia and their ties to the new government in Grozny allowed them plenty of scope for new business adventures elsewhere. One group of Chechens was believed to have set up an international money-laundering operation in an office building in Frankfurt ('Comrade Criminal', p.241);

3. In 1994 "Izvestia" reported that some criminal leaders from Russia were frequently travelling to Western Europe and the United States (Beleah, 1994). In 1995 "Izvestia" reported there are already permanent representatives of Russian organized crime in Western Europe and the United States. For example, criminal leaders (so-called "thiefs in law"): Eduard I., Sergei M. in Austria; Alimdjan T. in Germany; Aleksey P. in Belgium and the Netherlands; Mark M. in Spain; Matvey P. in Greece. In addition there are many members of organized criminal groups including criminal leaders from Russia who are constantly travelling back and forth to Western Europe (Beleah, 1995).

4.1.2 *Networking*

From information which has been gathered we might say that organized crime in Russia is able to control or influence practically all types of economic actors: (1) single entities including banks, (2) groups, acting in concert (including so-called holdings), (3) local authorities and governmental bodies, (4) merging entities (Burgess, 1992, p.200). They control a considerable part of the infrastructure which now shows signs of economic recovery - banking, financial services, construction (Craik, 1995). They also, as was mentioned before, control a considerable share of the market which represent one of the greatest assets of the Russian economy - natural resources including oil. Organized crime now has enough space to manoeuvre. It has gained monetary power (Strange, 1993): the ability to earn money and to move it around through the banks (and in other ways). With this kind of economic penetration organized crime offers serious advantages for a would-be-counterpart (not only criminal organizations but also legitimate foreign economic actors): 1) Control over the country's market, such as: a) control over access to the market in general; b) ability to offer an important market when the economic functions of the state are controlled or can be influenced by the organized criminal groups. 2) Control over factors of production, such as: a) natural resources; b) low-cost production; c) control over the means of production. It is most likely that the foreign business organizations (criminal and legitimate) would (or have to) cooperate with anybody who has these advantages. The question of who that "anybody" is will be a secondary matter. On the other hand, the organized criminal groups from Russia, which are operating abroad, will be looking for: 1) Assistance in improving their financial transactions including money-laundering, such as: a) managerial assistance (how to do it); b) access to hard currency funds, c) access to information; 2) Access to foreign markets. Again, the organized criminal groups from Russia would establish a contact with anybody who could offer them at least one of these advantages. This is

the basis for the connection with the Russian Federation organized crime transnational networking, which includes: (1) expansion of trans-border activities, which are graduating into (2) cooperation with foreign organized criminal groups or other foreign economic actors.

According to Claire Sterling "...with the emergence of the Russian Mafia phenomenon in Russia and its movig to the West, we have had the simultaneous moving of Western organized crime groups into Russia and the former Soviet states starting with the Sicilian Mafia and its organized crime partners inside Italy. (...) it is truly multinational in that we now have the sharing of intelligence information, the sharing of resources, the sharing of channels for money- laundering on a scale such we have never seen before" ('Global Organized Crime', p.109). One common feature which legitimate and criminal enterprises operating abroad have is that they all strive to maximize their profits and constantly try to reduce the risk factor for their operations. Networking or establishing the necessary connections is essential for successful operations abroad. The cooperation between the Russian and foreign organized criminal (but not only) groups is a natural response to their need to secure their operations (economic and financial including money-laundering) both inside and outside Russia. Both foreign and Russian organized criminal groups share the need to circumvent the law and other regulations. With the considerable financial assets gained by the organized criminal groups in Russia and their willingness to move their money abroad (for example, to Western Europe) the problem of securing their assets (or investments) abroad arises. Organized criminal groups from Russia cannot negotiate on this subject with foreign governments², that is why they have to establish contacts with their counterparts abroad, for example, with Italian Mafia groups which have been operating in the West for a long time. By the same token, if foreign criminal organizations invest money in the economic sector of Russia, as it is now a good place for money-laundering from abroad, they will have to make sure that their operations and investments are secure. That is why they would cooperate with Russian criminal groups. It can be called "mutual favours" or mutual cooperation, which has now become a feature of the Russian-linked organized crime internationalization. Networking through this cooperation, will apparently develop further, strengthening the position of organized crime in both Russia and the West.

Dolgova and D'yakov write: "International experience shows that it is mistaken to think that the market is self-sufficient enough to overcome economic and organized crime" (Dolgova and D'yakov, 1993, p.272). This point of view is explained by Ageev, who said that [organized] economic crime undermines economic relations e.g. by controlling the prices and removing competition organized [economic] crime takes away economic stimulus from the economic process and destroys the self-regulation of the

2 It must be said that sometimes organized criminal groups can negotiate through the legitimate businesses which they control.

market (Ageev, 1995). Organized economic crime in the Russian Federation during the transition period has reached a stage in its development when there is no need for outside factors (disorganization in the economic sector, weakening of law enforcement) to facilitate its growth. This process can be called the self-contained growth of organized economic crime. That is to say, it develops using its own resources: 1) financial and economic, 2) networks of corrupt officials, 3) experience and manpower, 4) connections abroad. On the other hand, organized crime in Russia is not a single and unified conspiracy. Its structure can be described as liquid. For example, when some of the leaders of organized criminal groups are arrested, they are most likely to be replaced by other people (Williams, 1995, p.59), which makes combating organized crime very difficult. In addition, as organized criminal groups from Russia have established their presence in the West, the organized crime from Russia has gained the advantages other Russian economic actors could not. Organized crime from Russia received the chance to extend its activities over to the Western countries. It is now an economic force in Russia which is interested in expanding its operations, has no problems in fund-raising and can enter the Western markets without asking permission. Palmieri, head of Interpol's organized crime task force, referring to the situation in Eastern Europe, said: "The stream of the trade brings huge fortunes which are being laundered and used to penetrate the normal economy. Mafia-entrepreneurs are very self-assertive and have a lot of profits, they don't have to borrow money and they meet little resistance. They can hire very good experts who can show them the way in a complex world of international finance" (Palmieri, 1995).

4.2 An approach to the problem

Here I would like to take the liberty of taking the discussion a step further. In my view, a gap was created in the Russo-West economic relations after the fall of the Soviet Union which was filled by organized economic crime. On the one hand, for big Russian high-technology industries (aero-space, defence etc.) the Western markets were not open. Yevgeny Fedorov, head of the Russian Duma subcommittee on economic security, said: "In the world the centres of high technology and financial capital have long been established. There is sharp competition between them and it is highly improbable that they will allow anybody to reach their level of development". For example, the policy behind the major Western high-technology industries towards Russia can be described as the following: "Why reconstitute our former adversary and boost its economic capability and competitiveness at the expense of our own?" (Cook, 1992). Yergin and Gustafson write: "...the Russians' policy on foreign investment has been aimed at escaping from their exclusive dependence on raw materials, opening up foreign markets to their manufacture, and acquiring technology and capital... In many cases, the Western companies want just the opposite. They want to invest primarily in raw materials for export, gain access to the Russian domestic market, and

limit technology transfer so as to avoid creating future competitors." (1994,p.243). In actuality, the opening of Western markets and direct foreign investments into those industries would have stabilized the economic situation in Russia, creating an environment in which organized economic crime could not have grown rapidly. On the other hand, the aid from the West had no focus on any particular field which would have really benefitted and it was uncoordinated which created a situation whereby the aid was open to abuse. Mr. Sobchak, Mayor of St. Petersburg and a radical reformist, said that Russia does not need aid but rather integration into the World's economy (Sobchak,1992). This point of view is supported by Alexander Smolensky, President of one of Russia's leading "Stolichny" Banks, who said that Russia does not need credits from the West which are used for purchasing Western products. What Russia needs are the markets, he says (Smolensky,1995). Along the same lines are the words of Peter Grinenko, one of America's leading experts on Russian organized crime: "I think that Europe is using Russia to boost its economy. Europe is giving credits galore, Germany in particular, to the former Soviet Union. That money is coming back and boosting the economy in their own country, whether it be Germany, England, or France..." ('Global Organized Crime',p.125). Well-known in the West, Russian writer Aleksandr Zinovyev who was always against the Soviet regime, calls the present situation in Russia "colonial democracy" when Western policy is directed towards a sort of colonialization of Russia: Russia is exploited by the West through the small crossection of population which benefits from this exploitation (1994,p.489). "Be nice to Russia: if we go - you go", that is how we can sum up a recent TV interview with Aleksandr Lebed, who is now one of Russia's most popular political figures, and was then referring to the possible impact on Western Europe resulting from the chaos in Russia. Although these ideas, in my view, are somewhat too extreme, it can be said that if official policy limits the development of the Russo-West economic relationship, and there is an unsatisfied eagerness for opportunity, a wave of risk-taking and entrepreneurial ferment (Wannisky,1992) will be channelled into illegal methods of doing business or will cause it to be replaced by [organized] crime in the economic sector both in Russia and abroad.

It would be wrong to think that the situation regarding organized crime in the economic and financial sectors of Russia is hopeless. Some parts of the economy show signs of recovery and growth, which by far outweigh the activities of organized criminal groups in the economic and financial sectors. For example in the energy (oil and gas) sector, the giant integrated companies such as "Gasprom" and "Lukoil" represent part of the new Russian economy which is much stronger than organized crime in the economic sector. The conglomerat "Germes" with its financial institutions is a good example of legitimate large scale activities in the financial sector of Russia. However, organized crime in the economic and financial sectors has become one of the major drawbacks of the transition period in Russia. Claire Sterling: "What is happening as a result is that this country (...) is

being systematically plundered, ransacked by a criminal class working directly in hand with the political forces running the country, to the total detriment of the society it exploits. The great majority of Russians get no benefit from this operation. The new class of millionaires constitutes, for me personally, the most nauseating, distressing example of vicious, ferocious, savage imitation of capitalism that I have come across" ('Global Organized Crime', p.110). The biggest problem here, in my view, is that the present situation in the Russian economy, influenced by the phenomenon of organized crime, is such that it tends to significantly lower the standards of economic behaviour whereby precedents are established, which create a pattern of "acceptable" behaviour in the Russian economy. Social awareness of the consequences of the behaviour of the organizations and individuals (including those from the West) involved in business activities which are connected with Russia, is even further removed from the main task of profit-maximization. While the transition period is the time when new sets of values are formed, setting low standards of economic and eventually social behaviour would have a negative impact not only on Russia but on the Western countries as well. One of the (policy) solutions here could be what is called a "positive sum gains" approach, when internationalization of organized economic crime is counterbalanced by well-considered policy towards the real integration of Russia into the Western markets. Unfortunately, this was not top of the Western policy priorities in the first part of the transition period in Russia. The opportunity to correct the situation is there, but it would require a review of Western (economic) policy towards Russia.

5 Conclusion

This report could not cover all the aspects of the phenomenon of organized crime in the economic and financial sectors of Russia and its impact on Western Europe. The author attempted to contribute to the research in this relatively new field, using mainly Russian sources. The report can serve as further proof of the seriousness of the problem of organized crime from Russia and its impact on Western Europe. The report points to a need for further research and underlines some of its main directions. There are two main directions: (1) Criminal capital from Russia in Western Europe and its integration in international finance and trade is a major field for research. The scientific foundation should be laid down for assessment of the threat to Western Europe; (2) Another important direction of the research should contribute to the development of criminal policy in the field of combating organized crime at international level (for example, cooperation between various agencies in Western Europe and the Russian Federation). Here attention should be given to the factors which might boost or hamper the policies of combating organized crime. It should be added that further research would be, apparently, more effective with the use of an interdisciplinary approach.

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Samenvatting

Naarmate de hervormingen in de Russische Federatie vorderen, wordt het probleem van de georganiseerde misdaad groter. Ondanks de vele publikaties hierover is de informatie over dit onderwerp oppervlakkig en is er op internationaal niveau nauwelijks iets bekend over de georganiseerde misdaad. Dit rapport wil een bijdrage leveren aan het terugdringen aan deze kennisachterstand, door inzicht te geven in de wijze waarop in Rusland over dit probleem wordt geschreven in de pers en vakliteratuur.

Aard van het rapport

Het rapport concentreert zich op de activiteiten van de georganiseerde misdaad tegen en via de legitieme economische sectoren, inclusief de financiële sector. Daarbij ligt het accent op de ontwikkeling in de overgangperiode (vanaf 1991) van een staatseconomie naar een markteconomie in de Russische Federatie. Bovendien wordt speciaal gekeken naar de gevolgen daarvan voor West-Europa. Het rapport heeft dus geen betrekking op meer in het oog springende criminele activiteiten als drug- of wapenhandel, prostitutie of smokkel van radio-actieve materialen.

Het rapport is voornamelijk gebaseerd op Russische publikaties over de activiteiten van de georganiseerde misdaad in de economische en financiële sectoren in Rusland. Er moet rekening gehouden worden met het feit dat het hierbij om informatie uit de geschreven pers gaat en dus niet om 'harde' wetenschappelijke informatie. Het rapport geeft dus een overzicht van wat er in Rusland over dit onderwerp is gepubliceerd en geen objectieve evaluatie van de feitelijke situatie.

De voornaamste bronnen voor informatie waren: *Kommersant* (het Russische equivalent van *The Economist*), *Chelovek i Zakon* (vergelijkbaar met het Tijdschrift voor de politie), en de kranten *Izvestia* (vergelijkbaar met de Volkskrant) en *Moscovdkiye Novosti* (vergelijkbaar met NRC/Handelsblad). Van *Izvestia* en *Moscovskiye Novosti* zijn de jaargangen 1991 t/m 1995 bekeken. Door de grote toename van publikaties over de georganiseerde misdaad in de economische en de financiële sector komt de meeste informatie echter uit de jaren 1994 en 1995. Ditzelfde geldt voor de andere bronnen van informatie.

Het rapport is op de volgende wijze tot stand gekomen. Eerst is de informatie uit de grote hoeveelheid beschikbare literatuur gesystematiseerd en ingedeeld in achtergrondinformatie en cijfermatige gegevens. Daarna werd het rapport geschreven, waarbij de nadruk lag op het cijfermatige materiaal (inclusief statistische gegevens) uit Russische kranten en tijdschriften, de structurering van de informatie en de analyse. De

combinatie van de achtergrondinformatie en cijfermatige gegevens vormt de basis het rapport.

De economische sector

Het eerste hoofdstuk behandelt de activiteiten van de georganiseerde misdaad in de economische sector in Rusland, met name in de aluminium- en oliehandel. Ook wordt er een theoretische verklaring gegeven voor de ontwikkeling van de georganiseerde misdaad tijdens de overgangperiode. De grote veranderingen op de Russische markt in de overgangperiode hebben een situatie gecreëerd waarin snel veel geld verdiend kan worden.

De criminele groepen kregen kansen omdat er in deze periode geen overheidscontrole was op economische activiteiten. Zo kreeg de georganiseerde misdaad vrij spel op de zwarte markt en in het bedrijfsleven. Gesteld kan worden dat de beperkte overheidscontrole op de aluminium- en de oliehandel resulteerde in een omvangrijke illegale handel. Het kernprobleem is dat - vanwege de privatisering en het vrijgeven van de markt - de legitieme ondernemingen en de criminele groepen hetzelfde wilden: controle over de markt door overname van particuliere ondernemingen; het veilig stellen van de handel met West-Europa; een zo gering mogelijke overheidscontrole.

Aangenomen mag worden dat de handel in aluminium en olie criminele groepen aantrekt, omdat die zo lucratief is. De recentelijk gepleegde moorden op personen die in de Russische aluminium- of oliehandel zaten, vormen een indicatie dat criminele groeperingen op deze gebieden actief zijn. Belangrijk voor de toekomstige ontwikkelingen is hoe de volgende generatie criminelen haar winst gaat besteden en daar controle over gaat uitoefenen.

De financiële sector

Het tweede hoofdstuk is meer specifiek gewijd aan de georganiseerde misdaad in de financiële sector in Rusland. Deze sector maakt weliswaar ook deel uit van de economie, maar wordt vanwege variëteit en ernst van de misdadige activiteiten apart behandeld. Naast bijvoorbeeld afpersing van banken, zijn er diverse vormen van fraude, zoals valsheid in geschrifte en het witwassen van geld, waarbij georganiseerde-misdaadgroeperingen zijn betrokken. Vaak is hierbij ook sprake van corruptie (bijvoorbeeld in de bankwereld). Ook hier lijkt sprake te zijn van een mogelijke internationalisering van de problemen.

Volgens de Russische literatuur kan er in de periode 1995-1997 een aanzienlijke toename van delicten in de financiële sector worden verwacht, zoals fraude in het bankwezen, vervalsingen, credit-cardfraude en het witwassen van geld. Deze delicttypen worden in het rapport gedetailleerd beschreven. Uit het materiaal dat voor dit rapport verzameld werd, blijkt

dat deze delicttypen in de Russische financiële sector gemakkelijk de grenzen overschrijden, richting West-Europa.

Invloed op West-Europa

Het derde hoofdstuk geeft enig zicht op de invloed van de Russische georganiseerde misdaad op West-Europa. Hoewel het rapport vooral Russische informatie bevat, kunnen op basis van het verzamelde materiaal enige conclusies worden getrokken. Er is sprake van directe en indirecte vormen van invloed op West-Europa. De directe invloed vormt het grootste probleem.

Bezorgdheid om een toenemende criminaliteit speelt in alle zakelijke relaties tussen Rusland en West-Europa. In het eerste hoofdstuk is de aluminiumhandel in Rusland beschreven. Er zijn aanwijzingen dat oncontroleerbare handel in Russisch aluminium de Westeuropese markt schade heeft toegebracht. Ook zijn er aanwijzingen dat georganiseerde criminele groeperingen voor een deel van deze handel verantwoordelijk zijn. Mogelijk vindt op deze wijze crimineel kapitaal zijn weg naar West-Europa. Al deze factoren hebben een directe negatieve invloed op West-Europa.

In het tweede hoofdstuk lag de nadruk op de financiële sector. De toename van het aantal vervalsingen van Westeuropees geld is een duidelijke directe dreiging voor West-Europa. In de overgangperiode zien we voor het eerst fraude in het bankwezen, waarbij de georganiseerde misdaad aanzienlijke winsten maakte. In een aantal gevallen werden deze bedragen doorgesluisd naar West-Europa. Ook fraude met credit cards vormt een direct gevaar voor West-Europa; er zijn al aanwijzingen dat deze vorm van fraude West-Europa heeft bereikt. Illegale elektronische overschrijvingen en computerinbraken zijn tekenen dat georganiseerde criminele groeperingen 'high-tech' niet schuwen of op zijn minst in staat zijn vaardigheden van computerexperts te gebruiken voor criminele doeleinden.

Een ander groot probleem voor West-Europa is het witwassen van geld. Gezien de ligging is het begrijpelijk dat criminele groeperingen uit Rusland veelal Londen (maar ook andere Westeuropese financiële centra) gebruiken voor het witwassen van geld. Een voorbeeld van indirecte invloed van de Russische georganiseerde misdaad is het gebruik van geweld tegen personen die betrokken zijn bij Russische bedrijven en nu in West-Europa wonen. Hetzelfde geldt voor een aantal criminele leiders die, volgens de Russische kranten, in West-Europa wonen of er vaak naartoe reizen.

Een ander verontrustend vorm van indirecte invloed is de discriminerende politiek ten opzichte van Russische ondernemers die legitiem zaken willen doen in West-Europa. In de Russische literatuur wordt een groeiende achterdocht van de Westeuropese financiële gemeenschap ten opzichte van Russisch geld gesignaleerd. Een aantal Russische auteurs vraagt zich af wie er belang heeft bij de angst voor de 'Russische maffia'. Sommige

Westeuropeanen zouden politiek voordeel hebben bij het overdrijven van een nieuwe dreiging vanuit Rusland. De dreiging van een koude oorlog heeft plaatsgemaakt voor de nieuwe 'maffia'-dreiging. Deze signalen, over en weer, zijn verontrustend, omdat ze een negatief effect kunnen hebben op alle betrekkingen tussen Rusland en West-Europa.

Internationalisering

In het rapport wordt het standpunt ingenomen dat de internationalisering van de georganiseerde misdaad aansluit bij de ontwikkeling van een globale economie. Dit uitgangspunt is toegepast op de (economische) betrekkingen tussen Rusland en West-Europa. In het kader van koersschommelingen en prijsverschillen vinden grensoverschrijdende 'schaduw'-transacties tussen Rusland en West-Europa plaats. Daarbij zijn drie fasen te onderscheiden: internationale handel in goederen en diensten; vervolgens internationale geldstromen of handel in activa, inclusief aankoop van onroerend goed; tenslotte verhuizingen of reizen naar het buitenland.

Uit alle beschikbare cijfers blijkt dat de georganiseerde misdaad in Rusland bijna alle typen van economische actoren kan beheersen of beïnvloeden: zelfstandige bedrijven (inclusief banken), samenwerkende groepen (inclusief de zogenaamde holdings), plaatselijke overheden of overheidsinstellingen en gefuseerde bedrijven. Hierdoor heeft de georganiseerde misdaad monetaristische macht gekregen: het vermogen om geld te maken en het te laten circuleren, onder andere via de banken. Dit vormt de basis van de Russische georganiseerde misdaad: grensoverschrijdende activiteiten worden uitgebreid en leiden tot samenwerking met georganiseerde-misdaad-groeperingen of andere economische actoren uit andere landen.

Vanwege de aanzienlijke vermogens van de georganiseerde-misdaadgroeperingen, die worden doorgesluisd naar het buitenland (bijvoorbeeld het westen), ontstaat het probleem dat zij deze vermogens (of investeringen) in het moeten veilig stellen. De Russische organiseerde misdaad kan hierover niet met buitenlandse regeringen onderhandelen. Hierdoor zijn ze gedwongen contacten te leggen met hun 'collega's' in het buitenland, bijvoorbeeld met de Italiaanse maffia, die al heel lang in het westen opereert. Ook omgekeerd moeten buitenlandse criminele organisaties hun investeringen in de Russische economische sector (op dit moment geschikt voor witwasoperaties) veilig stellen. Daarom moeten zij samenwerken met Russische criminele groeperingen, die kunnen doordringen tot alle typen van economische actoren in Rusland.

Men kan hier spreken van 'wederzijdse gunsten' of wederzijdse samenwerking, hetgeen kenmerkend wordt voor de internationalisering van de georganiseerde misdaad in Rusland. Het netwerk dat op deze wijze door samenwerking ontstaat, zal zich verder ontwikkelen en zal de positie van de georganiseerde misdaad in zowel Rusland als West-Europa versterken.

Nadere conclusie

Tenslotte wordt beargumenteerd dat het beleid van de voornaamste technisch hoogontwikkelde industrieën in West-Europa ten opzichte van Rusland verkeerd is. Dit beleid kan worden weergegeven in de zin: 'Waarom moeten we onze vroegere tegenstanders helpen en hun economische kracht versterken ten koste van onszelf?' In feite had echter het openstellen van de westerse markt en het investeren in de industrieën de economische situatie in Rusland kunnen stabiliseren. Daarmee zou een omgeving zijn gecreëerd waarin de georganiseerde misdaad in de economische sector niet zo snel had kunnen groeien.

Aan de andere kant was de hulp van het westen niet op een specifiek terrein gericht en niet gecoördineerd, hetgeen misbruik in de hand werkte. Als het officiële beleid de ontwikkeling van de Russisch-Westeuropese betrekkingen beperkt, is dat niet zonder risico. Het onbevredigde verlangen om een kans te krijgen, om risico's te nemen en ondernemingsgeest te tonen, worden omgezet in illegale methoden van zakendoen of worden vervangen door initiatieven van de (georganiseerde) misdaad. Ruslands natuurlijke rijkdom (zoals aluminium en olie) dreigt zo verloren te gaan.

Het zou daarentegen onjuist zijn de situatie in de Russische economische sector als hopeloos te kenschetsen. Sommige delen van de economie tonen tekenen van herstel en groei, die zwaarder wegen dan de georganiseerde misdaad. Het grote probleem is echter wel dat de huidige situatie in de Russische economie, die beïnvloed wordt door het verschijnsel van de georganiseerde misdaad in de economische en financiële sectoren, de economische gedragsnormen verlagen. Illegale precedenten krijgen het karakter van een patroon van 'acceptabel' gedrag. Van een sociaal bewustzijn van de gevolgen van het gedrag van organisaties en individuen die betrokken zijn bij de zakelijke activiteiten met Rusland raakt, is dan (ook in het westen) geen sprake meer.

Omdat in de overgangperiode nieuwe waarden worden gevormd, hebben lagere economische en uiteindelijk sociale normen een negatieve invloed op Rusland, maar ook op de westerse landen. Een van de (beleids)oplossingen hierbij zou de zogenaamde 'positive sum gains approach' kunnen zijn. De internationalisering van de georganiseerde economische misdaad zou gecompenseerd dienen te worden door een goed integratiebeleid voor Rusland in de westerse markt. Helaas had dit tijdens het eerste deel van de overgangperiode geen politieke prioriteit. De kans om deze situatie te herstellen is er, maar betekent een herziening van het westerse (economische) beleid ten opzichte van Rusland. In het algemeen zou het verbeteren van de bestrijding van de georganiseerde misdaad op internationaal niveau de samenwerking tussen West-Europa en Rusland vergemakkelijken.