

**Organized Crime: Its Influence on
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Conditions Leading to the Rise of Organized Crime

Russia is facing new difficulties as a result of negative processes in the economy, the deterioration of interethnic relations, and the social polarization of its society, which have created a direct threat to the security of the urban life in the country. This threat is a consequence of the increase in the proportion of the population living below the poverty line, the stratification of society into a small group of rich citizens and a vast majority of needy citizens, and the escalation of social tension, especially in the industrial cities of the Urals, Siberia, and other regions. At present there is a twenty-eight fold difference between the richest ten percent of the Russian population and the poorest ten percent. Although this unequal distribution of wealth is not very different from what existed in the pre-Revolutionary period in Russia, the striking discrepancy is shocking to a population that was accustomed to an ideological commitment to equality and -- despite the collapse of Communism -- continues to retain the socialist ideal of economic parity. Citizens perceive that they have been "robbed" of the assets that they were supposed to have inherited from the Soviet state. Ironically, the new holders of wealth are an alliance of former Communist Party bureaucrats, organized criminals, and dishonest businesspersons. This so-called "gangster industrial complex" is as oblivious to the needs of the people as was the former Soviet ruling elite.

Urbanization has also been cited as a trend that contributes to an increase in social tension. Eighty percent of the Urals' population live in cities that are centers of poverty and social discrimination. The spread of disease, the rapid decline of the social safety net (including child and medical care), and the vast reduction in the buying power of state salaries has meant that a significant proportion of the urban population is much worse off than in the period preceding the transition to a market economy and the establishment of private property. Efforts to reform the economy, without establishing proper mechanisms of control and protection from unlawful infringements, created favorable conditions for the rapid spread

of economic crime. Extortion (nick-named the "hidden tax to bandits") as well as price-fixing and monopoly-building by mobsters increases prices by 20 to 30 percent, contributing to the further impoverishment of the population. The primitive stages of post-Communist capitalist formation appear to be as hard on many citizens as the conditions that inspired the Communist Revolution.

Another dangerous phenomenon is the drawing together of criminal, state, and municipal structures, which has led to the criminalization of state decision making. For instance, criminal groups are penetrating city governments (which are often struggling for cohesion and lacking resources) by using bribery and violence to win protection for their expanding operations. Governmental resources, strained to cope with a wide range of social and economic problems in urban communities, are completely inadequate to respond to and unable to accurately assess the extent of the problem.

There also is favorable ground for corruption in a country in which the state intervenes in economic life, not through indirect regulation or taxation, tariffs, and so on, but through the administration and direct determination of material and financial flow. The scale of corruption has assumed unprecedented proportions, undermining not only morale but also the economy and the state itself. Russia has become one of the most corrupt states in the world, but this is hardly a new phenomenon: Soviet officialdom was notoriously corrupt as well. What makes the current situation so troubling is that the state has relinquished central economic control without first dismantling the state-run monopolies, safeguarding ownership rights, or stripping bureaucrats of their near-absolute powers.¹ Organized criminals, inside and outside the massive Soviet-era bureaucracy, have rushed in to fill the vacuum.

The ordinary urban citizen comes up against the corruption and venality of individual officials at almost every step. Functionaries in the housing and municipal service agencies extort bribes for practically everything, from the issuance of documents and the right to lease to compliance with sanitary-epidemiological and technical norms. Lately personnel in such traditionally altruistic spheres as health care and education have also become active in the area of bribe collection. Quite frequently almost the entire top layer of the bureaucratic

¹Experts think that more than 5 trillion rubles found their way into private hands from the state treasury in 1996 with the direct involvement of corrupt officials.

apparatus turns out to be involved in extortion.² Officials no longer have to receive bribes in the classic manner -- a wad of notes in an envelope. Today, a great many completely legal ways exist, such as inflated fees for lectures and consultancies or highly paid positions in nonstate structures upon retirement from state service.³

As the centralized controls of the authoritarian Soviet state are lifted, regions are developing distinct political, social, and economic features. But the adoption by constituent parts of the Russian Federation, and by the "Urals Republic," of normative legal acts and decisions that are at variance with the Constitution of the Russian Federation and federal legislation is becoming an increasingly dangerous factor eroding the economic and legal unity of the country. And organized crime, in order to increase its influence, is stimulating the conflict between federal and regional powers and assisting the rise of regional powers.

The declaration of independence of the Urals Republic may be only a smoke screen for the preservation of old mafioso-clientelist Party structures. This is not the decentralization and federalism sought by American promoters of democracy; instead, it represents the rise of local fiefdoms, protected by armed bands loyal to local leaders who seek political and economic controls over the region. These local leaders may enjoy more power than in the Soviet period because they own rather than control property, and the "law enforcers" are employed by them rather than the state. In the absence or contradiction of a legal framework, citizens in (or outside) urban centers have great difficulty protecting themselves from the abuses of organized crime.

²To get in direct contact with an important official just to look into a problem costs approximately \$1,000. Of course the official himself takes nothing -- a middleman sees to that. To register an automobile without delay, even a stolen one, costs \$2,000. It costs \$30,000 to have a criminal case dropped; if the crime is very serious, it may cost as much as \$200,000 to avoid being brought to justice. The income of state officials who lobby for the interests of commercial structures and do so actively reaches \$300,000 a year.

³Other means include the publication of books with unjustifiably high print runs and the payment of fantastic royalties; interest-free, long-term loans; the transfer of shares to relatives or proxies; the acceptance of money by credit and financial institutions at interest rates from 2,000 to 500,000 percent per year; and the financing of parties and companies.

Large cities and major urban centers are magnets for the shadow economy and organized crime because their citizens can afford expensive foods and consumer items from the "second" economy; the bureaucrats who need to be bought off are also usually located in the cities. In general, therefore, the threat of the criminalization of social relations in urban life is of particular urgency. The mistakes made during the initial stage of the implementation of reforms in the economic, military, law-enforcement, and other spheres of state activity; the weakening of the system of state regulation and control; the imperfect legal base and the absence of a strong social policy; and the lowering of the spiritual and moral standard of society are objective factors that have helped to preserve organized crime.

The consequences of these trends have manifested in the weakening of the legal monitoring of the urban situation in Russia, and in the fusion of the executive and legislative branches of the cities with criminal structures, which have penetrated the management of banking, major production facilities, trade organizations, commodity production networks, and nuclear arsenals. The criminal world has in essence entered into open competition with the state, particularly in urban areas. As a result of the large-scale, often conflict-ridden, division of property and the struggle for power on the basis of group, political-ideological, and ethnic and national interests, the threat of organized crime is increasing. The weakness of preventive measures to avert the organized crime phenomena, legal nihilism, and the outflow of skilled cadres from law and order bodies are increasing the impact of this threat on the urban community. In its turn, these negative trends are connected to the coordination of criminal operations. There were 413 "crime meetings" in Russia last year to discuss the distribution of spheres of influence, the resolution of conflicts, the formulation of measures to counteract the internal affairs authorities, and the "coronation" of new bosses. A substantial number of them were held in large cities and their suburbs. Without a valid assessment of the challenges posed by these organizations, the prospects for effective action against them are minimal.

Following the lead of world-class criminal organizations everywhere, crime syndicates in the Urals are amassing considerable muscle. They are already well equipped with sophisticated weapons and advanced communications, and are exploiting the Urals' military-industrial complex to gain access to an unusual array of talent, including former police officials, military specialists, university-trained chemists, managers, and economists. Many police (MVD) operatives assume that almost every organized criminal group has its own high-ranking official in the municipal, city, or regional administration who provides protection and support.

Criminal groups have the resources to fund candidates in elections at the local level and to finance the elections of members to city legislatures. Thus, regional and city parliamentary bodies are riddled with de facto criminal syndicate representatives, who diligently block or water down any significant anticrime legislation. The penetration of regional mafia into government structures and the close ties between mafia groups and the security apparatus have a corrosive effect on citizens' perceptions of democracy; the people know why there has been no major organized crime trial in the past seven years and why large-scale mafia groups enjoy impunity in the Urals cities.⁴

Understanding regional differences allows the long-term consequences of organized crime to be assessed. There is a broad consensus among specialists that the Urals has witnessed the emergence of large regional mafia empires that control policymaking, the economy, and industrial production. With its enormous wealth of mineral resources, and an extensive military-industrial complex, the region has become a hotbed of corrupt capitalism and organized crime.⁵ Yekaterinburg now is an important transshipment point for illicit cargoes, and trafficking, not only in precious metals but in nuclear materials.

Criminal organizations in the Urals vary in size and scale and engage in a wide range of activities. For instance, according to available data in Yekaterinburg, the Uralmashevskaya Gang, named for a huge metallurgical plant, centers its activity around the large Uralmash factory on the city's outskirts. Its main operations are economic crime, banking fraud, smuggling raw materials and metals, extortion, real estate manipulation, and smuggling drugs, arms, and nuclear material. The group's main international operations are in Cyprus,

⁴Not surprisingly, nearly three-quarters of the residents in Yekaterinburg believe that their city is ruled not by the government, but by the mafia. Fifty-six percent believe that the police are not fighting organized crime because they have been bought off. Some believe that the problem could even threaten the Yeltsin government itself. As polling conducted in Yekaterinburg indicates, over a three year period (1995-1997) "the rise in organized crime" became one of the most severe problems facing the urban community. In 1995, concern for this issue placed third on a list of the six most important problems, and respondents perceived an even greater increase in the seriousness of the problem by the end of the year. The statistic rose again in 1996 and 1997. Presently, anxiety about the rise in organized crime is second only to the public's concern with inflation.

⁵Yekaterinburg, President Boris Yeltsin's home region, became Russia's version of Chicago in the 1920s. The city of 1.5 million people has a thriving criminal underworld and one of the world's highest rates of incarceration. In fact, since it is near many labor camps, Yekaterinburg has a net annual influx of 4,000 criminals. In general, after release from the Urals' labor camps, offenders settle in the urban communities surrounding these labor camps. Sociological research among Yekaterinburg's organized criminals reveals that ties developed in labor camps are more important determinants of gang organization than in cities such as Saint Petersburg, where members of crime groups are more diverse.

the United States, Poland, Germany, and China.⁶ There are a number of small gangs that specialize in operations such as extortion, kidnapping, and drug dealing. They do not operate independently but either pay tribute to one of the top groups or work as an arm of the stronger structures.⁷

Some sources report that a new dangerous group of former military personnel and security officers has been created who provide protection to criminal leaders and collect protection payments. Trained to defend the interests of the Soviet state, these individuals have now offered their services to protect the interests of crime lords. This group was used to settle economic and political disputes through contract assassinations -- murder for hire. Over the last six years, criminals have brazenly murdered several high-level political officials as well as dozens of influential businessmen and bankers.

Typically, there are two levels of organized crime in Urals' cities today. The first is dominated by street thugs, basically low-level muscle who extort payoff protection from small businesses. The far more profitable level, known as "the roof," is peopled by traditional crime bosses, along with some emerging entrepreneurs wanting to make the most of new opportunities in order to get rich quickly; many of the latter have shed their Communist Party cards en route to becoming wealthy monopoly financiers. Businesses that deal with these groups are brought under the "roof"; if they cannot afford their own security forces, protection is provided for them.

⁶The Tsentralnaya Gang is active in the city center in gambling; prostitution; extortion; trade; and metal, drugs and arms smuggling. Its main international operations are in Hungary and Belgium. The Afhgantsy Gang is active around the Central Market; its main operations are extortion, selling cars and petrol, and drug smuggling in Afghanistan. The Siniye Gang (former prisoners) operates in the city's outskirts and nearby towns; main operations include protection and racketeering. The Azerbaijan Gang is highly active in the city itself and its main operations are drug and arms smuggling.

⁷A total of 76 organized crime groups were discovered in Yekaterinburg. An end has been put to the activity of the Dzhoker firm, which is controlled by a "central" criminal organization; the ZLTD firm and the Start limited partnership, controlled by the Uralmash criminal organization; and the Miko-Invest and Sakirtan firms, which belong to the Krishna religious sect and are a part of the Siniye criminal organization; and the Va-bank limited partnership. In 1997, twelve commercial structures under the control of the Uralmash criminal organization were liquidated.

Criminal activity in the industrial, financial, and credit arenas is increasing, and it is clear that banks and commercial structures are becoming part of the system for laundering criminal capital. Consequently, most new capitalists in the Urals' cities operate mainly in the so-called gray zone that exists between the underworld and the official world. Today nothing is "clean." It is virtually impossible to make money in Russia without breaking the law. Even apparently legitimate entrepreneurs find it difficult to muster the necessary capital for new enterprises and all too frequently must borrow from mobsters at extortionate rates of interest. Criminal support for businesses is becoming a precondition for their existence. Even the more powerful entrepreneurs are businessmen who are forced to break the law and who earn money from their powerful connections. There are several reasons for this.

First, the monopolization of power has resulted in the formation of state, city, and municipal administrations that seek to derive benefits from businesses. Between 25 and 30 percent of the money obtained from criminal economic activity is used to nourish corrupt relations with government and local officials.

Second, many of the investors who are participating in privatization made their money in shadow economic activity -- speculation, racketeering, extortion, looting, and so on. It is hardly surprising, therefore, that the privatization process in the Urals' cities is turning many of the prime assets over to swindlers and thieves. More than 60 percent of the enterprises in Yekaterinburg were either established by or are now controlled by criminal organizations. From 70 to 80 percent of private, privatized firms, and commercial banks are forced to pay criminal groups, corrupt officials, and racketeers. The result is the tendency to match economic policy to the specific economic interests of the criminal structures.

The third factor is that when hundreds of billions of bank notes are not accounted for, questions arise about the protection, transfer, and storage of the so-called "black money." It is understandable that with these currency problems, businessmen may have to turn to the criminal world. The very presence of black money is an enticement to all sorts of criminals and adventurers. Thus, the state's own ill-conceived tax policy is itself pushing businessmen into association with the criminal world and creating a culture medium for crime.

A fourth factor contributing to the union of business with criminal circles is that the state has essentially removed itself from the performance of its basic functions -- the protection of property and owners and the regulation of economic relations. State arbitration in economic disputes works extremely poorly and is corrupt. This is largely because it does not possess an adequate material base or qualified personnel. However, the main problem is that even if one wins a case, there is practically no system for the execution of court decisions. If the state does not fill this niche (and the objective economic need for the fulfillment of such functions is sufficiently great), then other structures will begin to perform them.

It is no secret that criminal structures have long played the arbitrating role of the law officer. They "beat out" debts, collect arrears and loans, and raise their own taxes. When the question arises even for law-abiding businessmen about whether to spend time and effort in court with no guarantee of success or to go to the bandits and pay a huge commission so that they can receive at least something, many are forced to take the second course.

A fifth factor is that the state is not guaranteeing the basic physical safety of businessmen. The reports in Yekaterinburg's newspapers are only the tip of the iceberg. The real statistics on business-related deaths are much more frightening. Of course, turning to the criminal world for protection has an effect on the business, which can then find itself under the influence or control of criminal elements. It is not without reason that any large bank, enterprise, or trading firm, especially for exports, has its own "army." It is a necessity dictated by the fact that the state is not performing its own function of protecting, guaranteeing security, and settling economic disputes.

It has become clear that idealistic expectations about life after the downfall of the totalitarian regime have not been met. At least initially, it was not taken into account that any significant social changes that break down the established and customary mode of life require the transformation of the previous value system and the creation of new models of economic and political behavior. Unfortunately, the collapse of Communism did not lead automatically to democratization and the transition to a competitive capitalist economy. Instead, domination by the Communist Party was replaced by the control of organized crime. State ownership of the economy was exchanged for control of the economy by organized crime groups that have a monopoly on existing capital.

Labor markets in the industrial cities of the Urals, once controlled by state planning and submissive trade unions, are instead subject to the intimidation of organized crime, which is already a major employer and has no concern for the working rights of individuals. The trade unions at businesses that have fallen under mafia control are usually liquidated or their leaders become mafia people. The limited employment prospects for many individuals make them easy targets for the false employment schemes offered by organized crime members. The mafia decreases wages by not paying for social insurance, not paying overtime, and simply cutting salaries. Organized crime also exploits labor by smuggling men to low paying jobs abroad and using child labor in unregulated conditions at below minimal wages.

Local Effects of Organized Crime

Because it is able to operate with such a high degree of impunity, organized crime has become a major impediment to the development of urban community life in the industrial cities in the Urals. City social organizations, which, in principle, should be opposed to organized crime, in many cases support it, partly because it has become so established that it provides a certain kind of stability. Indeed, when organized crime controls much of the economy of a city (Yekaterinburg, Nizhniy Tagil, Revda, Pervouralsk, and so on), it often contributes to the infrastructure of the community.⁸

In my native town of Yekaterinburg, the new czar is a former soccer star named Konstantin Tsyganov. His crime organization is reputed to control 60 percent of this rich industrial region, with branch operations in Moscow.⁹ Tsyganov's men make regular deliveries of food, tea, and medicine to Yekaterinburg's overcrowded jail. The warden, who says the state has slashed his budget so severely that two inmates have died from the poor conditions, shrugs and accepts the booty. Tsyganov is something of a Russian Robin Hood. His thugs allegedly extract only up to a third of the profits from businesses struggling to establish themselves. Even the police admit that Tsyganov is well liked. Supporters say it is because he gave fledgling entrepreneurs what their government could not provide: protection against petty criminals and other extortionists, reliable debt collection, a well-connected "friend" to run interference with meddling bureaucrats, and, sometimes, financing at much lower interest rates than banks. Even if much of his capital was extorted from businesses or stolen from state enterprises, it was felt that Tsyganov was trying to make his thirty-odd companies into a legitimate business empire.¹⁰

Charitable organizations that are directly engaged in commercial activities have become

⁸For example, organized crime groups pay for the construction of hospitals and schools as a form of insurance against the collaboration of community members with law enforcement. Many crime figures sponsor sporting events and are associated with philanthropic groups. Corrupt banks contribute to educational and other community projects on a regular basis. Many mafiosi are involved in charity work and social protection programs.

⁹During a gang war, his henchmen decided that they needed more than machine guns to battle rivals from the ferocious Chechen mafia. They hijacked a state-of-the art tank from a nearby military testing ground and parked it on the central square. The Chechens left town.

¹⁰After he was arrested on extortion charges, invalids, pensioners, and the local soccer team wrote letters of protest, extolling his philanthropy and demanding his release. All said they could not survive without his largesse.

increasingly embroiled with organized crime. If half the staff in these businesses are disabled, the companies are legally exempt from paying certain kinds of taxes. However, it is not necessary to have disabled staff, since fake agreements can be signed and mythical wages paid to nonexistent personnel. Legally, the profit from businesses owned by charities and other public organizations is not taxable if it is used to fund the ostensible activities of these bodies. This makes them an attractive channel for laundering money.

In other words, social organizations that, in principle, should be contributing to the development of urban community and civil society in general have been neutralized or co-opted by criminal organizations that are exploiting them. Some of the enormous profits from this and other activities are plowed back into the local economy, with some multiplier effects. This helps in several ways: dirty money becomes clean, necessary protection is created for criminal associations, symbolic actions create a favorable climate of public opinion, godfathers are made to appear as saviors of city communities, and political channels are secured for the promotion of representatives of criminal structures to organs of city government.

Narcotics trafficking is the internal and international criminal activity with the most serious impact on urban communities in the Urals and the primary money-maker for criminal groups. Criminal organizations are rapidly acquiring the ability to transport drugs across regional and national boundaries, and international traffickers are gaining footholds in the region. Drug use has spread as a result of greater access to drugs, the commercialization of markets by organized crime, and the greater demand for drugs by a demoralized population.¹¹

Like organized crime itself, the narcotics industry is growing by feeding on the prevailing chaotic economic conditions. The collapse of the old industrial order in the Urals' cities devastated thousands of highly trained chemists and medical specialists, obliterating employment opportunities or reducing their earnings to poverty levels. Many such specialists now work in clandestine narcotics laboratories, synthesizing LSD, methadone, ephedrine-based amphetamines, and new-age compounds such as trimethylfentanyl, a synthetic opiate hundreds of times stronger than heroin. These laboratories may, in fact, be little more than university research institutions and factory facilities converted to part-time or full-time illegal production. In addition, foreign and domestic crime syndicates are transshipping huge quantities of illicit drugs across Russian territory, including the Urals. Heroin and hashish cargoes from the Golden Crescent countries throughout the Urals are en route to Western Europe and, less frequently, North America. Thus, the growth of a flourishing illicit drug industry in the Urals also poses

¹¹According to the Yekaterinburg internal affairs administration figures, the number of drug addicts has increased 25 times in the last three years. Today, almost 500,000 people in the region have had a drug experience. The primary target of the illicit drug trade is the marginalized and unemployed youth. The daily drug traffic in the whole Sverdlovsk (Yekaterinburg) region reaches 3 billion rubles.

a potential threat (although not a direct strategic threat) to the West.

Organized crime in the urban community also results in increased violence, street crime, property crime, and more visible and pervasive deviance. There has been an increase in the frequency of attacks, including armed attacks against dwellings and the kidnapping of citizens. The spread of firearms contributes to the aggressiveness and ferocity of criminals.

Surveys of the Yekaterinburg urban population illustrate the growth in the victimization of citizens -- 24 percent by November 1997. The empirical data from one study show that almost one third of businessmen have been victims of criminal offenses, more than have representatives of other groups of the city's population.¹²

The general homicide rate in the Urals' cities has increased dramatically and now exceeds that in U.S. and Western European cities. The explanations for this growth are the turf wars between organized crime groups and the increase in contract killings. The motive of today's contract murders is economic, rarely political; the level of professionalism in execution has increased sharply; and, as a rule, military firearms, and less frequently explosive devices, are used in their commission. Because murder is becoming a business, entire criminal companies are appearing whose specialty is this type of activity.

¹²The opinion polls bear witness that businessmen and heads of the enterprises estimate their chances of becoming victims of organized crime to be twice as high as those of the general population. In addition, businessmen are almost twice as fearful as the general population of arbitrary acts committed by the authorities. In other words, they are almost equally afraid of encroachment by organized crime and of illegal actions committed by the official authorities. Eighteen percent of respondents "frequently feel in danger of an assault," and only ten percent believe themselves to be in complete safety.

Most cities in the industrial Urals are controlled by bandit groups that divide zones of influence and terrorize the population.¹³ Hit men are used to silence those who threaten the monopolies of organized crime, challenge their dominance, or disclose their activities in the mass media. Law enforcement is incapable of protecting citizens or even legal personnel who stand up to organized crime. If statistics can be trusted, the police break up at least two organized crime gangs each day, but in reality no municipal official could envision the elimination of organized crime. Each vanquished "combatant" is immediately replaced by a new one. In fact, the violence perpetrated by organized crime remains unprosecuted and unpunished. Almost none of the hundreds of contract killings perpetrated by organized crime groups throughout the industrial Urals region have been solved. Officers from the Organized Crime Directorate only hunt the most blatant gangsters -- to keep all of the other mafiosi "within the bounds of decency."¹⁴

International Effects of Organized Crime

Organized crime groups in Yekaterinburg and other industrial cities in the Urals are exporting their operations and networks and are collaborating with foreign criminal organizations. Some of the Urals gangs have been responsible for violent crimes in Central and Western Europe, Israel, Canada, and the United States. The threat to the West from the "evil empire" has been replaced by Russian mafia penetration of Western economies. The smuggling of resources from the Urals has depressed world prices for commodities. The Urals' syndicates are assuming a more prominent role in the global traffic of illicit drugs, and they are collaborating with foreign criminal organizations in money laundering. Crime syndicates are also exacerbating the international proliferation of advanced weaponry and dangerous radioactive substances. For example, some sources suggest that Russian and

¹³In Yekaterinburg, the most criminalized city in Russia, violent gang crime has risen sharply for the past five years as a result of the total anarchy that resulted from the weakening of the two main gangs - the Uralmashskaya and Tsentralnaya -- which for several years created a certain equilibrium in the criminal world. There are now more small-scale gangs striving for influence, so that a full-scale war is almost permanently underway. Shoot-outs and contract killings have become a bit less frequent this year because the city's first generation of post-Soviet crime bosses has already been wiped out, mainly in turf battles with one another.

¹⁴Robberies, apartment burglaries, and car thefts have also increased as a result of the growth of organized crime. Practically half the total number of urban citizens who have been victims of criminal encroachments do not turn to internal affairs agencies, basically because they consider it useless to do so. On the whole, only one third of the Yekaterinburg citizens are, to one degree or another, satisfied with the internal affairs agencies' work; another third feel that the internal affairs agencies are completely incapable of guaranteeing public order or the personal safety of citizens.

Italian organized crime kingpins in Prague apparently focused on various money laundering schemes and possible exchanges of weaponry and nuclear merchandise for Western narcotics, especially cocaine. Such a situation constitutes a direct threat to global security and to the national security of the United States by fostering instability in a nuclear-armed power.

Theft and export of raw materials

According to experts working in the Regional Administration for Combating Organized Crime, the export of raw materials and nonferrous, precious, and other metals is an important sphere of organized criminal activity in the industrial cities of the Urals. A network of middlemen, including foreign commercial structures, has taken shape around the extraction and export of crude resources. This network can sell the resources abroad without any restrictions and then conceal the foreign currency receipts in the accounts of dummy firms in foreign banks. Much of this criminal activity is based on the illegal privatization of raw materials, which have been appropriated by the government officials managing these industries. However, shipments can be made only with the cooperation of organized crime groups. Contraband metals and raw materials are smuggled under cover of licenses that are generally acquired through bribery, as officials sell export licenses and trading rights as if they were their personal property.¹⁵

Money laundering

Laundering money in Russia, including in the Urals, is comparably easier than elsewhere in the world. It is a country without borders or controls, and corruption reaching to the highest political levels. Money is being sent from legitimate banking institutions, because the dollar has become a second currency in Russia. And from all over the world, criminals are shipping cash to different parts of the former Soviet Union and then making it legitimate by buying commodities and materials that they can then sell in Western Europe and for which they have a paper trail.

¹⁵V. Mashkov, formerly President Yeltsin's representative in Yekaterinburg, confirmed this illicit mass exodus of capital and rich natural resources from the Urals area. According to some estimates, one third of all metals mined in the region were smuggled out of the country. Because of close connections between the local political elite and those with access to these natural resources, there have been few prosecutions.

Well known in the West, money laundering has taken a firm hold in the Urals region as a whole, and laundered cash, both foreign and domestic, has become integral to its economy. Money from drugs, arms sales, prostitution, or other illegitimate activities finances banks, keeps state industries afloat, and buys raw materials. Confidential reports suggest a growing cooperation between domestic criminal enterprises and various Western criminal organizations.

¹⁶ Money from illegal activities is being put into wines and spirits, gambling and show business, high-yield securities and companies with large cash balances. There are over 150 organized gangs in the Urals (over 3,000 in Russia) that specialize in legalizing revenue from illegal activities and half of them have set up their own businesses to launder money. They rely increasingly on technology and sophisticated international business techniques to maintain their operations and thwart law enforcement efforts. This often means not so much criminal influence on businesses, but total control over them.

Reportedly, billions of dollars have been transferred to various Western countries. The money that is leaving the Urals is being made from payoffs, blackmail, extortion, theft, and especially fraud (bank fraud, white collar crime).¹⁷ Unlike Italy or Colombia where crime groups have reinvested significant resources in their countries, most of the wealth of Russian groups lies in foreign banks and is rapidly being invested in foreign economies. Such enormous capital outflows have supported the replication of criminal networks and ventures in the West.¹⁸

Organized crime groups are blamed for hastening the flight of Russian capital as a whole (not only mafia money). Unofficial sources say at least \$1 billion a month is flowing into Western and offshore banks that already hold close to \$150 billion in Russian deposits. The dollars are ferried out of Russia by businesses anxious to protect their money against inflation, confiscatory taxes, or mafia extortion. Some of the outflow comes from government credits to industry,

¹⁶The Sicilian Mafia and its Italian partners have been the prime movers in making international organized crime operational inside Yekaterinburg. An example of the collaboration between Urals criminal organizations and foreign partners is the commercial banks that Sicilian, Italian-American, and Russian criminal enterprises jointly own in Yekaterinburg. Other evidence exists that links Russian crime groups with Italian crime organizations. For instance, the Sicilian Mafia has been stockpiling huge quantities of Russian rubles to buy exportable commodities, such as oil and metals, and for purchasing shares in privatized banks, factories, and real estate by investing in Russian front companies.

¹⁷In some cases, gangsters have forced banks to transfer tainted capital abroad illegally -- and then killed the bankers who knew where the deposits were kept.

¹⁸It is thought, for instance, that the United States was receiving much of this black money and was not doing enough to combat the problem.

which, instead of being invested in rebuilding Russian manufacturing, quickly find their way into foreign banks. A significant portion of the money fleeing Russia each month is believed to belong to the mob and its growing business empire.

Weapons trafficking

Underground arms trafficking from rich arsenals, stockpiles, and military enterprises in the Urals is an important part of organized crime activity. General Igor Rodionov, the former Defense Minister, described the military as in a horrible state of decay, no longer able to isolate itself from the rest of society, which has been pervaded by banditry. Russia might soon reach the threshold beyond which its rockets and nuclear systems cannot be controlled. Marshal Igor Sergeyev, the current Defense Minister, has said that military discipline is now so weak that the Russian mafia is about to take over some army units. Military units with commercial interests routinely collude with organized criminal groups to market different kinds of weapons, including assault rifles, rocket-propelled grenades, missile systems, and especially tanks. Military sources reported an immense increase in thefts of weapons from military depots. In the last five years, 46 generals and 3,000 officers were to be court-martialed on corruption charges and for "illegal business deals" ranging from smuggling weapons to black-market sales of military equipment. The officers accused of selling off the most advanced weapons have defended themselves by saying they had no money to buy rations for their starving troops. The illicit movement of military material through organized crime channels has resulted in the spread and increase of former Soviet guns and weapons throughout the world. The rampant illegal trade in high-tech weaponry imposes new burdens on East-West disarmament negotiators and could literally compromise the arms control process.

Nuclear smuggling

Nuclear smuggling poses some strategic dangers to the West and increases potential opportunities for the proliferation of weapons of mass destruction. According to undercover sources, several deals with weapons-usable materials and many more with the dual-use isotopes -- nonfissile materials (beryllium and zirconium), which are important in the construction of atomic weapons -- were made by the Uralmashskaya Gang and some other groups in the Urals industrial region.¹⁹

Some of these arms deals have been well publicized. For instance in one episode, law

¹⁹The Siniye criminal group based in Nizhny Tagil and Yekaterinburg, the third level of the regional mafia after Uralmash and Central gangs, trades actively in strategic metals, including those in the "dual use" category, and trades occasionally in nuclear materials. This gang maintained close contact with counterpart criminal organizations in the Caucasus and the Central Asian States.

enforcement agents seized twelve tons of zirconium, a precious metal with nuclear applications, at a Yekaterinburg airport. The zirconium was bound for Lithuania, smuggled by a trading firm. In another, a transaction resulting in the shipment of 4.4 tons of beryllium (a neutron reflector that is a critical material for building efficient nuclear warheads or small nuclear reactors) from Yekaterinburg to Lithuania was financed by the deputy governor and chief representative to the Russian Federation, both of whom had close ties to the Yekaterinburg criminal underworld. The Yekaterinburg regional government, which was making a lot of money from export deals like this one, had issued an export license for the beryllium.²⁰

A number of factors appear to be prompting this rising traffic in nuclear radioactive materials. Unfortunately, a reorganization of the MVD and the Federal Security Service and Intelligence (FSB) reduced the number of officials assigned to the investigation of nuclear smuggling, and sting operations have been cut back. A network of small front companies set up by the counterintelligence service in Yekaterinburg and other cities to "buy" (that is interdict) radioactive and dual-use metals was largely dismantled. Therefore, the law enforcement agencies are able to intercept only 30 to 40 percent of materials taken from nuclear facilities.

Economic hardships in the so-called "closed" defense industries create motives and opportunities to steal radioactive and nuclear materials and to sell or distribute them, for instance to transnational criminal organizations and groups. Laboratories, reactors, production lines, and even entire plants are being shut down. Nuclear scientists, weapons engineers, and skilled technicians are unemployed. Thousands of workers throughout nuclear facilities continue to live hand to mouth, despite aid from abroad. Earnings of most employees in the nuclear enterprises fall below the Russian national average, approximately US\$200 per month. Delays in payments of salaries are widespread.

These uncertainties might well tempt employees of the nuclear industrial complex to peddle atomic bomb components on the black market. The record of thefts of radioactive junk, useless for making nuclear weapons, and really weapons-usable materials (highly enriched uranium and weapons-grade plutonium) from the Urals facilities is troubling enough -- reportedly twelve thefts over the past five years (confidential sources). The evidence suggests that trade networks for such materials continue to grow and proliferate. The threats of nuclear sabotage and terrorism are also increasing. Legal contraband in nuclear materials and components is an

²⁰ Actually, an organized crime group was behind the shipment and the trail of the smuggled material wound from Yekaterinburg through Vilnius to Switzerland, where the buyer was prepared to pay \$24 million for the shipment. Before the beryllium was seized, the Clinton administration tried to put a stop to its transport, asking the Russian Prime Minister to have Moscow take control of the beryllium in accordance with the 1992 amendments to the international Nuclear Suppliers Group Guidelines that went into effect in 1993. Despite the request, Moscow argued that the shipment was legal and should be returned to the Yekaterinburg trading firm involved in the transaction.

emerging concern. Significant leakages of fissionable materials and especially the successful theft of tactical nuclear weapons could radically alter the international strategic balance. Therefore, nuclear smuggling in the cities of the Urals industrial region remains a potentially dangerous threat to international security.

The Fight Against Organized Crime

Organized crime in the regions and urban communities of the former Soviet Union could be significantly reduced by developing viable legal systems and tax policies, enforceable contracts, and controls on governmental corruption. On the one hand, the only real means of fighting corruption in the state apparatus is the drastic reduction of direct state interference in the economy; the less a public servant distributes, divides, licenses, or permits, the less possibility there will be for corruption. On the other hand, there are some areas in which the removal of state interference has created the problems.

There must then be a fundamental revision of the entire complex of interrelations between the state and business from that of "hunter" and "prey" to a normal partnership. Only by building partnerships is there a chance to reduce the level of criminalization in the economy and society, defeat corruption, and improve the situation as a whole, particularly for the urban community. Strategies must target the distinct problems of specific regions at the same time that they try to promote the long-term development of the rule of law. The fight against organized crime, corruption, banditry, terrorism, and nuclear smuggling should be oriented toward preventing unlawful actions, ensuring the inevitability of accountability for these crimes, and protecting every person's right to personal safety, regardless of nationality, citizenship, or religion.

Unfortunately, the responses of city governments to date have been characterized more by rhetoric than substance, while the initiatives that have been put in place reflect a basic misunderstanding of the causes, dynamics, and consequences of organized crime in urban communities. The authorities have done too little too late; as a result they have been no match for the mafia. There are several reasons for this:

First, thanks to the corruption of the bureaucratic apparatus and to the constant powerful financial infusions it received from its activities, organized crime began to acquire the means to spy on the militia and even the courts. Experts suggest that a high percentage of the law enforcement personnel are receiving pay-offs from organized crime. Second, law enforcement organs were deprived of many of their most experienced professionals. One reason for this was the allure of the commercial sector, which often provided them with incomes several times higher than their previous salaries. Third, although law enforcement agencies are continually restructuring and reorganizing, serious reform has simply not occurred. The resulting tensions, distractions, and demotions have demoralized the ranks. Local law enforcement agencies also are at the mercy of the lingering ideological prejudices of Soviet jurisprudence.

Fourth, it is also clear that organized crime has supplanted many of the functions of the state and currently represents the only fully functioning social institution in many industrial cities in the Urals. For instance, organized crime provides many of the services that citizens expect from the state - protection of commercial businesses, employment for citizens, mediation in disputes. Indeed, in the absence of this order, businesses rely on the mafia to collect debts and to resolve disputes with suppliers and competitors. Private security, mostly run by organized crime, is replacing law enforcement. Recent sociological research in Yekaterinburg indicates that businessmen willingly pay protection as a cost of doing business effectively.

Therefore, organized crime fighting in the Urals and in Russia as a whole is more than a matter of law enforcement: the political, economic, and human rights dimensions are central. Organized crime-fighting should be linked to a general strategy designed to promote irreversible reform. In addition, the West must act to bolster Russian efforts to combat organized crime. A significant proportion of Western financial aid to Russia, which now comprises mostly export credits and IMF stabilization loans, should be redirected to crime-fighting purposes. Appropriate areas for international assistance include helping to reform Russia's antiquated judiciary; equipping federal and municipal police forces with vehicles, computers, and communication equipment; and training police in investigation techniques.

In part, this is a matter of Western self-interest. The extension of Russian criminal activities beyond its borders and the penetration of other economies by Russian crime syndicates pose threats to Western countries. The direct threat to the United States, although less significant than to those countries facing Russia itself, is still serious enough to encourage greater cooperation and agreements on information exchanges, extradition, asset sharing, and other legal matters.²¹

The growing illegal trade in nuclear materials is, of course, a preeminent Western concern. Closing off the smuggling channels and improving nuclear safety is going to require an unprecedented level of US-Russian cooperation and probably a significant influx of US technical and economic assistance. The United States already supports a variety of initiatives designed to safeguard the nuclear demobilization of the post-Soviet state and to reduce risks of proliferation.²² Perhaps the most important part of the cooperation will have to be financial help for the conversion away from the military-industrial complex, especially in the so-called "closed" and formerly "closed" cities in the Urals and the other regions of Russia, where nuclear infrastructure continues to be characterized by confusion and disorganization. In this regard, a helpful step would be a broad stream of Western investment in the economy of such cities and regions.

The ability of Russian law-enforcement and security agencies to counter nuclear smuggling has to be one of the main lines of defense against international nuclear proliferation. Sponsoring training programs on nuclear interdiction methods for Russian MVD counterintelligence and customs personnel should be considered. Russia also will require the infusions of specialized nuclear crime-fighting technology -- such as radiation detection devices (especially important at customs checkpoints) and laboratory instruments that measure uranium and plutonium enrichment. Increased material assistance to Russia must

²¹In congressional testimonies of 1995, 1996, 1997, FBI Director Louis Freeh pronounced Russian organized crime a new top priority for US law enforcement and called for mutual cooperation between the United States and Russia.

²²The projects focus on such purposes as inventory control for nuclear materials, construction of plutonium storage facilities, de-enrichment of hundreds of tons of Russian weapons-grade uranium, and creation of a job clearinghouse for out-of-work nuclear scientists and engineers.

be linked to new information-sharing arrangements that facilitate international efforts to counter nuclear trafficking. A useful step in this process would be to establish a joint Western-Russian data bank on Eurasian organized crime.²³ In sum, Russia and Western nations must develop a sophisticated, in-depth response to post-Cold War threats of nuclear theft, breakout, and proliferation.

Also posing a potential threat to the West is the growth of a flourishing illicit drug industry in various Russian areas, including the Urals. Therefore, the United States and its Western partners should consider increasing counternarcotics support in this sphere and cooperation between intelligence agencies on an international scale.²⁴

To be sure, helping post-Soviet cities tackle the entire range of problems associated with organized crime is beyond the West's capacity and resources. For example, many corrupt relationships in the economic sphere derive from a burdensome regulatory environment and an irrational tax structure. Here the West can do little beyond encouraging governments to accelerate privatization and deregulation. Similarly, creating a better business climate in Russia's cities is essentially a Russian responsibility. But the West, especially the United States, must continue to redesign its arsenal of foreign policy tools to counter the complex challenges to Western security and democratic values.

The conventional wisdom is that Russian organized crime is a transitional phenomenon in a period of profound property redistribution; that organized crime fills the void left by the collapse of Soviet power and the weakness of the successor states, including Russia. According to this perspective, organized crime will become much less threatening with the development of the market economy. Unfortunately, growing social problems make this extremely difficult: the cities are home to jobless and hapless people (according to various information, there are six million refugees in the country); nobody is dealing with the problems of the young; and law enforcement bodies are facing organized criminals who are armed with automatic weapons and equipped with space satellite communication devices, bullet-proof vests, and equipment for eavesdropping and spying.

²³In the nuclear sphere, this data might include -- for each recorded case of nuclear smuggling -- the names of traffickers and their previous criminal records; links to organized crime, if any; types of radioactive material intercepted; the source of the material and methods of storage and conveyance.

²⁴This support might include training programs, technical assistance, materials that can be deployed against narcotics' industries (such as herbicides), computer programming, and equipment for detecting drugs and for analyzing drug samples.

The diversification and flexibility of contemporary crime groups suggest that the phenomenon will not rapidly disappear once the initial transition period is over. The prognosis for combating organized crime in the near future is unfavorable: many criminal organizations have adapted to their communities and will continue to develop. In many cases the problem is not just criminal but political. In the current situation of an unbalanced economy and vanishing social cohesion, resistance to organized crime is rather low, especially in cities where the development of organized crime causes further political

destabilization. Organized crime, like any other business, is marked by mobility and economic competence. It constantly expands. By enlarging its influence to new spheres of social and economic life, organized crime reproduces all the necessary conditions for its own existence and guarantees for itself a market monopoly by way of physical strength in its battle with competitors.

At the same time, urban communities, and our society at a whole, are experiencing a decline in morality and a spread of lawlessness. In this sociopsychological situation, rightful interdiction becomes ineffective, and many forms of organized crime come to be considered "normal business activity." In any case, an unwillingness to address the problem of organized crime may permit its unimpeded development in coming decades. We should secure the minimization of crime, the reduction of its threat to society, and the prevention of its complete consolidation within the cities and the country. These tasks need strong legislative regulations, the united scientific and practical efforts of the different countries involved, and the internationalization of legal, economic, and political measures.