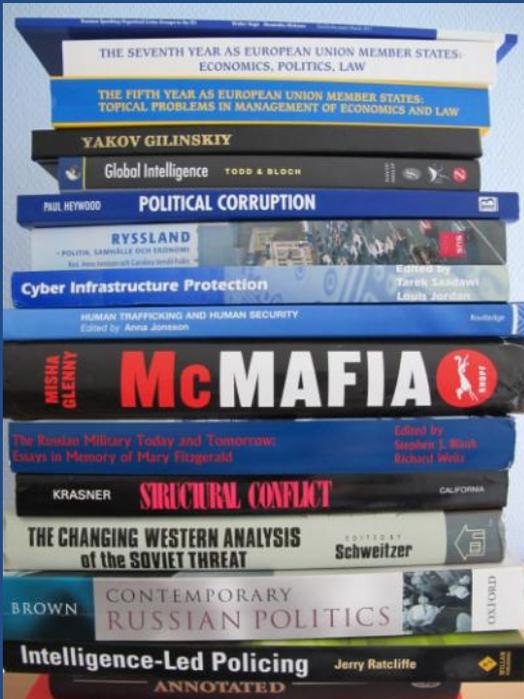


# Russian Organized Crime: Recent Trends in the Baltic Sea Region



Edited by  
Walter Kegö &  
Alexandru  
Molcean

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Development Policy



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**Edited by  
Walter Kegö & Alexandru Molcean**

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## Foreword

Organized crime is deeply rooted in Russia's 400-year history of peculiar administrative bureaucracy, but it received its current form during the seven decades of the Soviet era that ended in 1991. This history helps to explain the pervasiveness of organized crime in today's Russia and its integration into the political system. Organized crime in Russia is an institutionalized part of the political and economic system. It cannot, therefore, be fully understood without first understanding the place it has in the Russian political and economic system.

Russian organized crime has penetrated business and state-run enterprises to a degree unheard of anywhere in the Western world. When the European Union expanded eastwards, the exposure to organized and transnational crime increased for the EU as a whole. The borders between the Russian Federation and the EU became an important factor, creating certain dynamics essential for the way Russian organized criminal groups work. The Northeast region of the EU has turned into both a transit area and an important market for various commodities ranging from smuggled and counterfeit cigarettes to synthetic drugs, and serves as a bridge between criminals operating in Russia and those operating within the EU criminal world. The Baltic states tend to play an intermediary role in facilitating the illegal flows originating in the West, such as ecstasy, cocaine and cannabis products. The region is also used as a transit area for counterfeit goods from Asia destined for the Russian market.

On the other hand, Russian organized crime groups are highly skilled in using banks located in the Nordic and Baltic countries for laundering criminal money derived from crimes perpetrated in the Commonwealth of Independent States (CIS) and probably for making a less suspicious and low-profile entry into the financial systems in the EU.

The research results presented in this report highlight that when the region is discussed, it is important to look at each country individually, particularly in terms of its organized crime structures and their exposure to criminal activity.

Walter Kegö and Alexandru Molcean



**Part I:**  
**Perspectives of**  
**Russian Organized Crime**



# Mafia as a Form of Life

*Vladimir Ovchinsky*

Recent events<sup>1</sup> show the need for a thorough discussion about the organized crime phenomenon in Russia (the Russian mafia). The current developments demand a reconsideration of the established definition and vocabulary used in UN documents. The most common definition, which was developed under United Nations auspices, characterizes organized crime as a complex tangle of illegal actions of criminal groups aimed at obtaining extra profits by using corruption, violence and threats against their competitors and the general population. However, this paper is based on the assumption that the term mafia can be used as synonymous to organized crime.

The necessity to reconsider the approach to the problem with criminality developed due to a unique situation with the mafia in Russia. By the end of the 1990s organized crime (or mafia) evolved into a form of social organization in Russia. Hence, the opinion of sociologists that an organized criminal community can be regarded as a new form of social organization, in which individuals have specific material goals and interests and unite to achieve them, is taken as a basic assumption. At the same time organized crime is also a form of social activity for certain individuals and groups of people, which adapt behavioral stereotypes of criminal communities in their daily lives. The society includes not only highly organized criminal groups, but also individuals, who act in the same way.

This kind of social organization mainly resembles archaic and hierarchic relations within the society, far away from civil society. That is why it can be said that in contemporary Russia the relationship between individuals and society are based on the rules of the mafia community, not civil society. In this regard, the mafia society is a type of social relation-

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<sup>1</sup> Such as the large-scale ethnic disturbance in the settlement *Sagra* of the Sverdlovsk region with, *Stanica Kuschevskaya* of the Krasnodar region with 12 people of three families killed, the town *Gus'-Hrustalnyj* of the Vladimir region where an organized crime group was racketeering the entire city and the corruption scandal in *Talda* of Kemerovo

ship, derived from a “thief” subculture and shadow economic, political and social counterculture.

### **Can We Measure the Scope of Organized Crime?**

If organized crime is a form of social organization, can its scope be measured by traditional criminological methods?

At the beginning of 2007, top officials from the Ministry of the Interior declared that it monitored the activities of 450 organized crime groups with 12,000 active members. In 2010 other figures were highlighted putting the number of groups between 100 and 250. However, these figures are deceptive.

There are indeed multi-task hierarchic criminal groups with 12,000 members. In 1997 the membership of organized criminal groups amounted to more than 80,000 and since then their activities have increased. The number of youth criminal organization members under police records exceeds 50,000. However, there are economic crimes, which are controlled by the mafia today. If the number of people who were incarcerated since the early 1990s is taken into account (over 20 million people), the scope of the mafia community may be even larger. Some drug-addicted and socially vulnerable elements of the society are used by mafia. There are conglomerates of federal and regional officials, oligarchs, law enforcement officers and “thieves in law,” who use their positions and connections to aid the mafia.

These numbers are striking and partly a consequence of the modernization of the subculture of “thieves in law,” which afterwards became quite popular. It led to the formation of groups of organized criminal groups, consisting of different kinds of criminals and extremists, united by common criminal and anti-societal experience and having similar personal qualities. Different sorts of anti-societal and extremist groups based on the same territory are, in reality, organized youth crime groups acting under the control of organized crime groups.

### **Stages of the “Grand Path”**

The current state of organized crime has its roots in the situation which existed at the end of the Soviet era and the reforms of the early 1990s. By the mid-1980s highly organized anti-social forces existed within the Soviet

society. Corrupt party bosses and mafia bodies filled the vacuum that was created when the system collapsed, and used the collapse as an opportunity to enrich themselves. The Soviet Union's domestic policies created an environment in which criminal groups could thrive. Criminals obtained a significant basic capital as the anti-alcohol campaign created new opportunities for mafia organizations.

Organized crime further penetrated consumer-oriented spheres of the national economy. This was facilitated by disruption of economic ties, deficit of goods which skyrocketed the prices in 1992. Price formation without state regulation was used as a mechanism to abuse power and conceal crimes. Later, new forms of organized crime emerged which were engaged in racketeering and characterized by a high level of organization and its hierarchical structure.

The reforms of the 1990s, such as the decision to legalize shadow capital, created a fertile soil for expansion of organized crime, which hindered the fight against organized crime and corruption undermining commercial, tax and anti-monopoly law enforcement. That explains why the process of changing property rights in the 1990s was criminalized.

### **New Features of Organized Crime in Russia**

One of the main features of contemporary organized crime is the internationalization of the criminal groups. Two-thirds of criminal groups in Russia have connections with groups abroad. Many have connections with groups in the United States, Italy, Spain, Israel, Columbia, China, etc. Criminal groups with a foot in the international arena specialize in money laundering, drug trafficking and the smuggling of goods, radioactive materials, arms, prostitution and car theft. Some of their leaders migrated, but continued to direct the activities of their groups from abroad. In 2007–10 special police operations were conducted in Spain against representatives of the "Russian mafia," which led to the arrests of dozens of people including Russia-born Alexander Malyshev and Gennady Petrov, and Georgian-native Zahar Kalashov. They were convicted of economic crimes including money laundering and tax evasion, illegal privatization and the resale of strategic resources.

Organized crime groups have access to financial resources of the world markets and have transformed into inalienable elements of transnational

organized crime community, which is a threat to the whole world. Data from the General Secretariat of the Interpol shows that criminal groups from the Commonwealth of Independent States (CIS) closely intertwined with each other and groups from Europe, the U.S., Latin America and Asia.

The other striking feature of contemporary organized crime in Russia is the merging of state and mafia structures. In 1997 the Center for Strategic and International Studies (CSIS) outlined the threat of transformation of Russia into a criminal-syndicalist state, or the state controlled by corrupt officials, criminals and dishonest businessmen, as a U.S. national security issue. Such an approach triggers negative reactions from state officials who either deny the threat to the west from the Russian mafia or claim it is less dangerous than described.

At the same time, participation in the market economy increases the efficiency of the groups and created new economic opportunities for them, thus bringing them to a new level.

In new market realities organized crime groups apply new methods particularly in privatization and raiding (*reyderststvo*). It became a widespread phenomenon due to the fact that law enforcement agencies were able to recognize the phenomenon quite late. In the beginning, this form of criminal activity was seen as disagreements between business entities; until numerous investigations showed that raiding was an attempt to take control of profitable firms in order to use them for legalization of revenues and bring them an illegal sector of economy.

This method has a profound impact on the Russian economy, threatening the development of SMEs, decreasing state revenues, and corrupting state structures and courts. Raiding became more profitable than the drug business — one hundred thousand dollars of investment in raiding (mainly bribes to different officials) resulted in the possession of property worth tens of millions of dollars.

### **Financial crisis, the mafia and the Russian government “reform”**

The mafia has been taking advantage of economic turmoil. In January 2009, the UN reported that the mafia had started to infiltrate major banks. The author Roberto Saviano, a specialist in Camorra studies, suggested that banks were interested in any financial resources. This gave the mafia an opportunity to influence bank policies according to its interests. That is why

the fight against organized crime is an important component of anti-crisis measures. For instance, 27 out of 35 “Godfathers” were detained in Italy in a series of police operations in 2009–10. China and the United States have also intensified the work of special units.

Contrary to these countries, Russia disbanded its anti-organized crime units under a Presidential Decree of September 6, 2008. It can be characterized as a counter-revolution in a system of law enforcement agencies as an analogy to the revolutionary measures of 1988 when the units were created.

The reform of 1988 was revolutionary because, first the existence of organized crime was admitted and secondly, unlike the traditional law enforcement practice of taking action after the registration of the crime, or working with economic crimes aiming at specific firms, the fight against organized crime entails investigation and encounter specific organized crime group. Moreover, organized crime was a unique phenomenon of criminal activity, which incorporated different criminal activities as well as characteristics of different types of crimes.

These units were inconvenient for different groups from the very beginning, information regarding close connections between state officials, including law enforcement agencies and mafia, was reported. The Minister of Interior, Victor Erin, formed a special investigative bureau against organized crime, and then transformed them into a Chief Directorate against organized crime with regional branches, which reported directly to the Ministry of the Interior. This vertical power was strengthened by his predecessors and played a significant role in maintaining the territorial integrity of the country.

Boris Gryzlov liquidated regional branches, but strengthened and created special units in the ministry and in its regional bodies. Incumbent Interior Minister Rashid Nurgaliev was always a supporter of their further strengthening by designing a special concept of fighting organized crime. However, on September 6, 2008 the whole structure disappeared and was replaced by units against extremism. Their functions were transferred to criminal investigation units and units against economic crimes, a throwback to the 1980s.

This counter-reform put a tremendous obstacle in the fight against organized crime, putting organized crime groups beyond the control of the

law enforcement agencies. Unfortunately, the reform of the Ministry of the Interior did not meet the expectations and the units were not restored.

### **Is the Government Capable of Controlling Organized Crime?**

In the period of shock therapy, when the Russian industries were in jeopardy, Russian federal and regional governments did not perform their functions and the void was quickly filled by mafia structures or nationalist leaders. The process of the restoration of the government's authority was long and painful and in some places has not yet been completed. The current situation could lead to complete disaster. That required special preparation to different possible scenarios of the development of the events and particularly, enhancement of the fight against organized crime and its structures, for which economic crisis is a window of opportunity.

Crisis obligated the government to reconsider economic and social policies. Criminal policies are also to be reviewed especially in the wake of the merger of the mafia and state apparatus in order to prevent the expansion of the disease. Government should elaborate a coherent federal plan aimed at the core of the problem starting with the restoration of the units against organized crime reporting directly to the federal government.

In order to successfully fight organized crime, the government should take bold actions based on hard daily work otherwise there will be the repeat of the Mexican scenario; when the whole town was abandoned by its population rescuing itself from the mafia abuses.

# Corruption in Contemporary Russia and How to Combat It

*Alexander Sukhareenko*

Russia's ubiquitous corruption is not, as some experts and politicians claim, a novelty that arose in 2000 at the dawn of the Vladimir Putin era. Rather, corruption was already a serious problem in the waning years of the Soviet Union, when personal enrichment became the main ideology for part of the political and economic elite. Post-Soviet Russia, lacking a well-grounded sense of social and moral values, still cannot grasp the importance of reputation and, partly because of this, bureaucrats have made personal enrichment their one and only goal. A contributing factor is that since the early 1990s, no real administrative reform has been carried out to meet the new challenges facing the country. For all intents and purposes, we have today a Soviet-style bureaucracy, only still more bloated, unscrupulous, greedy and uncontrolled.

When members of the security agencies were brought into the executive and legislative branches of power after 2000, the situation worsened. Meanwhile, a majority of the population had been duped into a false sense of stability with a wave of material goods. At this point, the interests of most of the bureaucracy and of society coincided on a number of points, such as a lack of interest in socially active independent media (which is another basis for fighting corruption) and in political competition. The bureaucracy's strength, which was gradually increasing, contributed to this deterioration.

President Dmitry Medvedev has repeatedly declared the fight against corruption as one of the cornerstones of his domestic policies. According to the Strategy of National Security of Russia before 2020, approved by Presidential Decree from May 12, 2009, corruption is one of the major threats to internal security. But in the latest acknowledgement of the severity of the problem, Medvedev told some 11,000 supporters at a pro-Kremlin United Russia party convention that "everybody is fed up with corruption and with the system's stupidity."

This massive scale of corruption is costing the country billions of rubles and obstructing the path to sustainable economic growth. Russians paid at least 164 billion rubles (US\$5.3 billion) in bribes last year to buy off teachers, traffic policemen, doctors and others to settle everyday issues, almost double the level in 2001, according to the Ministry of Economic Development report presented in June 2011.<sup>1</sup>

The Ministry of the Interior (MIA) statistics show that the number of identified corruption-related crimes has nearly doubled from 22,575 in 2000 to 37,255 in 2010. By the end of 2011 the number of such crimes has reached 34,783. Most common are forgery, abuse of power, large-scale fraud and bribe taking. However, these figures should be treated as only a broad approximation. Meanwhile, Russian corruption is characterized by high level of latency that ranges between 90 and 99 percent according to some experts. Therefore, complete, or at least representative, data on this phenomenon are not available.

The latency of corruption is largely due to the fact that bribery is an integral part of life in Russia. According to the latest survey of the Public Opinion Foundation, only nine percent of Russians do not know how to bribe. Ten years ago these people were more numerous (24 percent). However, only one percent of Russians do not give bribes because of fear of punishment.<sup>2</sup>

The most corrupt districts are the Central (with Moscow), Privolzhsky, Southern and Far Eastern federal districts of Russia. Residents of these regions most readily pay bribes to various officials. However, this does not mean that other regions are free from corruption. Residents and law enforcement agencies in these regions are more tolerant to corruption; therefore, they react poorly to it.

Corruption has become so endemic in Russia that it is perceived as normal. According to the Foundation of Public Opinion survey, 81 percent of Russians speak about the high level of corruption in the country. Only seven percent of respondents believe the level of the problem will fall in the future,

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<sup>1</sup> "CorruptionWatch," RussiaWatchers, June 16, 2011, <http://russiawatchers.ru/daily/corruptionwatch-166/> (accessed September 7, 2011). The study included 17,500 people from 70 of the country's regions.

<sup>2</sup> А. Литвинова, "Только 9 человек из ста не научились давать взятки," РБК Daily, <http://www.rbcdaily.ru/2011/06/15/focus/562949980430428/print/> (accessed August 3, 2011).

while 33 percent say that it will increase, and 34 percent do not expect any changes. The majority of Russians (55 percent) believe that corruption cannot be eradicated.<sup>3</sup>

**Figure 1. Russian Corruption Map**



Source: Based on the MIA statistics of bribery in Russian districts.

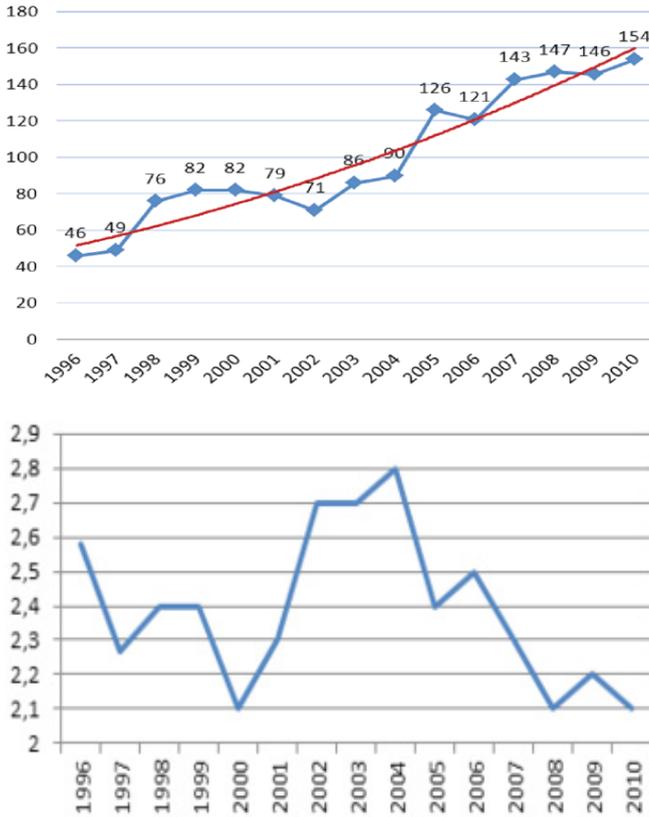
The pessimism of the Russian psyche supports the views of numerous foreign researches on corruption in the country. Russia was classed as the 143rd most corrupt country out of 182 in Transparency International's 2011 Corruption Perceptions Index, an improvement from 154 the previous year. However, despite its improved ranking, Russia remains the world's most corrupt major economy, with a score of 2.4 on a scale from zero (highly corrupt) to 10 (completely transparent) and a level of graft equal to that in Uganda and Nigeria.<sup>4</sup>

Russian corruption is directly related to the arbitrary power of its bureaucracy, and the labyrinth of regulations that "justify" its existence.

<sup>3</sup> ФОМнибс survey, "The level of corruption in Russia," <http://bd.fom.ru/pdf/d35ukvr11.pdf> (accessed September 3, 2011).

<sup>4</sup> Transparency International, Corruption Perceptions Index, 2011, <http://www.transparency.org> (accessed December 2, 2011).

Figure 2. Russia’s Corruption Trends (Place and Score)



Source: Transparency International, Corruption Perceptions Index (CPI)

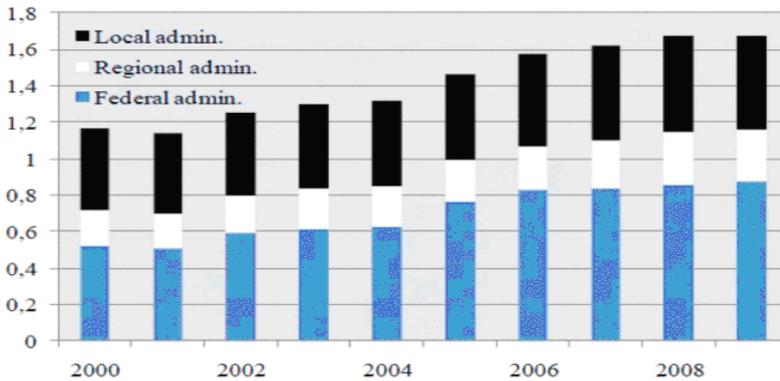
The number of federal, regional and local officials had swelled by almost 50 percent to 1.67 million by the end of 2009 in the years since the economy started to pick up under then-President Vladimir Putin in 2000, according to the Federal State Statistics Service. Of these, about 878,000 are federal government officials, including about 831,000 federal employees working in various regions. The number of governmental officials in Russia is at least one-and-a-half times larger than in the entire Soviet Union on the eve of its collapse.<sup>5</sup> The stifling Russian bureaucracy, which has thrived for years by

<sup>5</sup> The Ministry of Finance proposed a series of gradual cuts to the country’s army of bureaucrats. Under the plan, the number of state employees would be reduced by five percent in 2011, a further 10 percent in 2012 and by the full proposed 20 percent by 2013.

crushing any initiatives, has been the scourge of serious reform since the days of the tsars. President Medvedev is no exception.

Figure 3. Growth of the Russian Bureaucracy

**State civil servants 2000–2009, million**



Source: Rosstat

In this regard, the proliferation of fraud is related to the “sale” of posts in various government agencies. “Sellers” promise to make you governor of the region or senator for several million euros; and for a few hundred thousand you can try to lead any district or municipality.<sup>6</sup>

Over the past decade, corrupt activities of Russian officials have acquired a transnational dimension. What was previously limited to the Commonwealth of Independent States (CIS) today encompasses dozens of countries around the world.<sup>7</sup> To carry out their plans, corrupt officials use not only

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Downsizing the federal bureaucracy would lead to savings of 43 billion rubles (US\$1.4 billion) by 2013 by which time the program is expected to be fully implemented.

<sup>6</sup> Я. Миллюкова, “С продажи сняли должность губернатора,” BFM.RU, November 17, 2011, <http://www.bfm.ru/articles/2011/11/17/s-prodazhi-snjali-dolzhnost-gubernatora.html> (accessed November 20, 2011).

<sup>7</sup> In April, 2010 the U.S. District Court of Columbia fined DaimlerChrysler Automotive Russia SAO (DCAR), now known as Mercedes-Benz Russia SAO, US\$27.26 million for conspiring to violate the books and records provisions of the Foreign Corrupt Practices Act (FCPA). In connection with its guilty plea, DCAR admitted that it made improper payments to Russian federal and municipal government officials to secure contracts to sell vehicles by over-invoicing the customer and paying the excess amount back to the government officials, or to other designated third parties that provided no legitimate services to DCAR or Daimler AG. When requested, DCAR or Daimler AG

companies but also criminal organizations. They prefer to launder money through offshore banks or by investing in overseas property. The roots of export criminal proceeds remain the same, and pass through the offshore companies from the Baltic countries, Cyprus, Hong Kong, Switzerland, the UK and the Netherlands. To protect against possible criminal prosecution, corrupt officials acquire a second citizenship (residence permit) in violation of the laws of the state service. As a result, after the crime, they escape abroad and become inaccessible to law enforcements. For example, the former Moscow region Finance Minister Alexei Kuznetsov<sup>8</sup> and the State Duma Deputy Ashot Yeghiazaryan<sup>9</sup>, who are wanted for large-scale frauds, had U.S. green cards.

Widespread corruption at many levels of government in Russia feeds the rapid growth of organized crime. Corruption facilitates reinforcing criminal organizations, expanding their sphere of influence, and establishing sub-regional and international connections. According to experts, criminals spend up to 50 percent of their income on bribery as a normal business expense.

Many members of the elite who influence economic and political decisions are directly involved in illicit activities, which bring them into contact with criminal organizations. The case of Tambov criminal group leader Gennady Petrov, who was arrested in Spain in mid-2008 for money laundering and tax evasion, is such a case.<sup>10</sup>

Corrupt officials provide criminal fronts for companies with licenses and quota, customs exemptions, budgetary funds, state and municipal property,

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employees caused the wire transfer of payments from Daimler AG's bank accounts in Germany to, among other destinations, U.S. and Latvian bank accounts held by shell companies with the understanding that the money, in whole or in part, was for the benefit of Russian government officials. Diebold Inc. and Hewlett-Packard have also faced investigations into their operations in Russia in recent years.

<sup>8</sup> "Court arrests in absentia former finance minister of Moscow region," Itar-Tass, July 14, 2011, [http://www.itar-tass.com/c32/185663\\_print.html](http://www.itar-tass.com/c32/185663_print.html) (accessed September 3, 2011).

<sup>9</sup> "Ex-Russian lawmaker put on Interpol wanted list," RIA Novosti, May 19, 2011, [www.europaplus.tv/2011/05/ex-russian-lawmaker-put-on-interpol-wanted-list/](http://www.europaplus.tv/2011/05/ex-russian-lawmaker-put-on-interpol-wanted-list/) (accessed September 1, 2011).

<sup>10</sup> Р. Шлейнов, "Птенцы гнезда Петрова," Новая Газета, November 2, 2009, <http://www.novayagazeta.ru/data/2009/122/00.html>, (accessed September 1, 2011).

and eliminate their competitors. The law enforcement and security agency officials provide criminals with protection from prosecution.<sup>11</sup>

Two recent criminal cases against senior officials reflect current corruption. In January 2011, Lt. Gen. Alexander Bokov, a director of the CIS Bureau on Organized Crime and Other Dangerous Crimes, was arrested in a US\$46 million fraud case. Promising assistance in buying a majority stake in a transportation company he allegedly received 265 million rubles (US\$9.8 million) from a businessman. An investigation revealed that Bokov, whose 2009 registered annual income was one million rubles (about US\$33,000), lived in a four-story mansion near Moscow filled with collections of guns, jewelry, antiques and art. He also owned at least five apartments in downtown Moscow and real estate in Cyprus and London.<sup>12</sup>

In February, federal authorities reported breaking up an illegal gambling ring<sup>13</sup> in the Moscow region that was protected by at least three top-ranking officers of the regional police and influential regional prosecutors. The eighteen illegal gambling halls were located in 15 cities in the Moscow Region, where 1,200 slot machines were seized during the search. The investigators claimed that the corrupt regional prosecutors received at least 15 million rubles (over US\$535,000) in bribes during 2009–11.<sup>14</sup> This investigation resulted in open confrontation between the General Prosecutor's Office and the Investigative Committee.

Nevertheless, an emerging trend should be noted. Officials are gradually replacing the criminal organizations and putting them out of business. In particular, the last five years have seen a reduction in the number of small enterprises engaged in informal payments criminal "roofs" (from 44 percent in 2005 to 34 percent in 2009). In 2008 the size of illicit payments to corrupt officials by small businesses reached US\$40.2 billion, while the

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<sup>11</sup> А. Литвинова, "Только 9 человек из ста не научились давать взятки," РБК Daily, June 15, 2011, <http://www.rbcdaily.ru/2011/06/15/focus/562949980430428/print/> (accessed August 3, 2011).

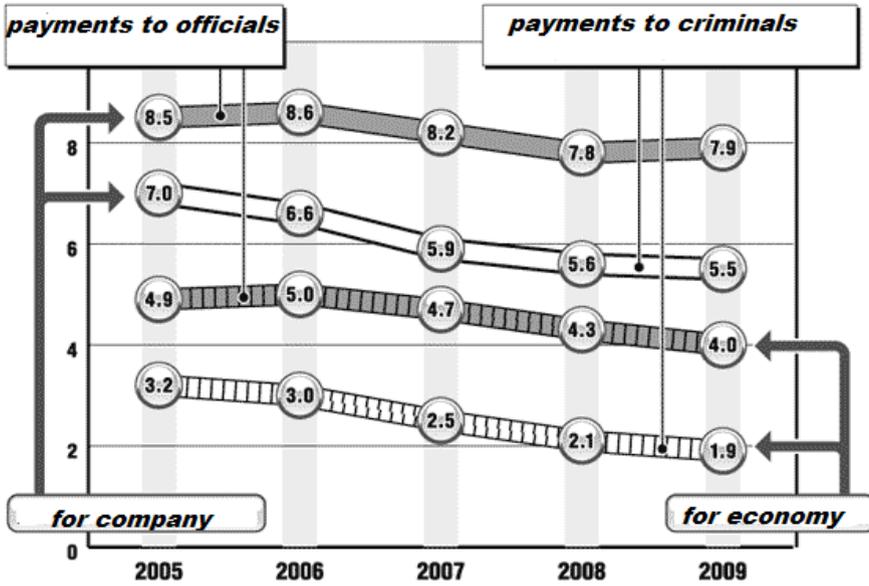
<sup>12</sup> "Gen. Bokov didn't plea guilty," Itar-Tass, September 30, 2011, <http://www.itar-tass.com/c9/237254.pdf> (accessed October 2, 2011).

<sup>13</sup> In 2009, Russia ordered the closure of all gaming establishments except in four specially designated areas – in the Baltic exclave of Kaliningrad, south Siberia's Altai Territory, Primorye in the Far East, and the Azov Sea coast in southern Russia.

<sup>14</sup> "Moscow Region prosecutor's office, police involved in illegal casino business," RIA Novosti, February 14, 2011, <http://en.rian.ru/russia/20110214/162598005.html> (accessed August 2, 2011).

criminal “roofs” only US\$18.6 billion. A possible explanation of this trend is a wide range of powers possessed by the officials.

**Figure 4. Illicit Payments to Officials and Criminals by Small Business (percent of income)**



Source: National Institute of System Research Business Problems

The global financial crisis aggravated corruption: the average amount of bribes has nearly doubled from 23,000 rubles (US\$760) in 2009 to 61,000 rubles (US\$2,200) in 2010. As a comparison, this figure was 9,000 rubles (US\$300) in 2008.<sup>15</sup> Bribes have become more expensive because those engaged in the widespread practice are rejecting small bribes as too risky amid a Kremlin-led fight against corruption. Businessmen claim that the size of bribes extorted by officials has grown as a result of a 2009 law, reducing the number of special checks on small and medium-sized businesses without a prosecutor’s consent.

<sup>15</sup> Ministry of Internal Affairs, Department of Economic Security, Annual Reports for 2008–2011.

## **Legislative Measures to Combat Corruption**

Russian authorities have initiated numerous strategies and reforms that include preventive and repressive measures to fight corruption. The initiatives include general reforms among a large number of institutions and public administration to specific anti-corruption measures in the law enforcement system. The main laws and regulations to prevent corruption are:

### 1.1 International Anti-corruption Regulations

- UN Convention against Corruption, dated October 31, 2003, ratified by the Russian Federation on 17 February 2006;
- Criminal law Convention on Corruption ETS 173, dated January 27, 1999, ratified by the Russian Federation on July 14, 2006;
- OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions, dated November 21, 1997, ratified by the Russian Federation on 1 February 2012.

### 1.2 Codes

- Criminal Code No. 167-I of the Russian Federation, dated June 13, 1996 (Chapters 22, 30);
- Code of Administrative Offences No. 195-FL, dated December 30, 2001 (Chapters 5, 7, 19).

### 1.3 Federal Laws

- Law No. 25 – FZ On Municipal Service of the Russian Federation, dated March 2, 2007;
- Law No. 79 – FZ On the Public Civil Service, dated July 27, 2004;
- Law No. 273 – FZ On Countering Corruption, dated December 25, 2008 (establishes the general organizational framework to prevent and combat corruption, to minimize and cope with the consequences of corruption offences);
- Law No. 274 – FZ On Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law On Countering Corruption (develops

provisions of the main law with respect to certain categories of government employees, such as judges and members of parliament, persons holding state and municipal offices not qualifying as state or municipal service offices);

- Law No. 280 – FZ On Amendments to Certain Legislative Acts of the Russian Federation in Relation to Ratification of the UN Anti-bribery Convention dated October 31, 2003 and the Criminal Law Convention on Corruption dated January 27, 1999, and Adoption of the Federal Law On Countering Corruption (develops the provisions of the main law with respect to state and municipal service and amends the Civil, Criminal and Administrative Codes);
- Law No. 172 – FZ on Anti-Corruption Examination of Regulatory Acts and their Draft (eliminate corruption provisions from regulatory acts and sieve all effective regulatory and normative acts at the municipal and regional levels).

In addition, the President signed a series of decrees aimed at improving the transparency of the civil service, in particular, the procedure to declare the income of officials, their spouses and children, the checking of this information as well as service behavior.

In April 2010, President Medvedev signed Decree No. 460, approving the National Strategy and the National Plan on Countering Corruption in 2010–2011. The Strategy defines the main directions and stages of the anti-corruption policy for the future, while the Plan — which will be renewed every two years — helps to implement the strategy provisions.

Admitting that corruption is one of the “systemic threats” to Russia’s security, the Strategy and the Plan suggest measures aimed at its eradication. These include forming a completely different perception of the issue. Government agencies, political parties and organizations are called upon to be active to solve this complex problem and to help increase understanding that corruption cannot be tolerated. Among the goals is the creation of a legal culture by achieving maximum transparency of public services and by implementing of the preventative measures in state bodies.

In May 2011, President Medvedev signed Law No. 97 – FZ on Amendments to the Criminal and Administrative Offences Codes to Improve State Anti-Corruption Management. This law is aimed at making the prevention

of corruption more effective. The amendments to the Criminal Code function as an alternative penalty for giving or taking large bribes. The fines will depend on the severity of the offence and range from ten to 100 times the bribe but cannot be lower than 25,000 rubles (US\$893) or higher than 500 million rubles (US\$17 million). Furthermore, the amendments filled one of the major gaps in the anti-bribery framework by introducing an additional offense – acting as an intermediary in bribery schemes and offering or promising to engage in such a role. The penalties for “mediating” bribery are nearly as severe as those for receiving or giving bribes. For the first time, the Russian anti-bribery law will apply extra territorially to bribes paid by Russian individuals or companies to foreign public officials.

This law also expands liability to a much broader range of corruption-related activities. Under the Administrative Offences Code, a company incurs administrative liability for commercial or official bribery “on behalf of or in the interest of” the company. Prior to the recent amendments, the Russian law required an actual “transfer” of money, securities, or other item of value to a government official or that a manager at a commercial or non-profit enterprise obtained an improper benefit for the company. In effect, this meant that the law was applicable only to completed acts of bribery. With the amendments made, companies can now also be held liable for an offer or promise to give such improper inducements. Finally, the new law creates a special statute of limitations for violations of the anti-corruption laws, increasing the limitations period from just one year (the default for administrative violations) to six years from the date of the violation.

The law adds a new chapter to the Administrative Offences Code authorizing a process for obtaining evidence and requesting other legal assistance from foreign authorities to facilitate investigations of corruption. These provisions also direct Russian authorities to offer legal assistance to foreign law enforcement agencies according to treaties in force or “on the basis of reciprocity, which is assumed until proven otherwise.” This new legal framework may open the door to greater cooperation between the Russian authorities and their foreign counterparts.

During November-December 2011, President Medvedev signed a number of federal laws, which improved the ability of public administration to fight corruption. By Law No. 329, banks, tax authorities and registrants shall provide, upon request, information on transactions, accounts and deposits

of citizens who have public positions of the Russian Federation, as a judge, or working in civil and municipal service, or having leadership positions in state owned companies, as well as their spouses and young children. This law also provides for a civil servant (state or municipal) being fired due to loss of confidence in the event of a failure to prevent and/or the settlement of the conflict of interest, which he is a party to; failure to submit information about their income, assets and liabilities of a material nature, as well as information on the income, assets and property obligations of spouses and minor children, or deliberate submission of false or incomplete information; participation on a fee basis in the activities of governing body of a commercial organization; of doing business; the occurrence of the governing bodies, trustees or supervisory boards of foreign non-governmental organizations and their structural units in Russia.

Law No. 395 sets the timing and order of the rotation of civil servants. Rotation in the federal public service will be mandatory in respect of persons holding posts as “leaders” in the local bodies of federal executive authorities responsible for control and supervision.

There are a number of legal agreements between Russia and 70 foreign countries with respect to criminal procedures. These include a memorandum of understanding (MoU) between the law enforcements and Mutual Legal Assistance Treaties (MLAT) on cooperation between governments in criminal law matters. Law enforcements can request international cooperation through attachés in the embassies of the country, and through liaison officers of foreign embassies or consulates in their own countries. They can also use Interpol, which facilitates cross-border police cooperation between its 188 member countries.

### **Fight against Corruption**

According to the Global Integrity Index (2009–2010) and the World Bank’s “Worldwide Governance Indicators” (2009), Russia is among the countries that are “weak” in combating corruption. Findings of foreign experts confirm the results of audits by the General Prosecutor’s Office. As practice shows, state officials still do not comply with the prohibitions and restrictions imposed by Federal Law of July 27, 2004, “On State Civil Service of the Russian Federation.” For example, public officials often combine their service with business, or own shares or parts of the share-capital. Also, officials

hide the facts when relatives or affiliates carry out commercial activities in the areas of their responsibility. In addition, officials often provide inaccurate information about their income and assets, as well as those of their relatives. Most of the corruption, in one way or another, is related to sector expenditures and public allocations — including state and municipal procurement. The corrupt officials do not comply with the principles of transparency of procurement procedures. This entails the restriction of competition and inclusion in the final price of products the amount of bribes received.<sup>16</sup>

The majority of corrupt officials were found to be middle- and low-level officials. The number of officials having procedural immunity remains negligible. During 2008–2010, 451 investigators working for law enforcement agencies, 71 prosecutors, 75 members of election commissions, 1,066 municipal and 74 regional deputies, 916 elected officials of local governments, a State Duma deputy and 27 judges were brought to justice for corruption-related crimes.<sup>17</sup>

According to the court statistics, there were 7,856 cases of bribery, but only 2,527 persons were arrested in 2009 — on average one out of every three were arrested. Meanwhile, there were 5,285 cases of bribe taking, with 4,553 persons arrested — on average nine out of ten were arrested.<sup>18</sup> There were 5,574 convictions for bribery. However, in 10.5 percent of convictions, the amount of bribery did not exceed 500 rubles (less US\$17); 29 percent of cases — from 500 to 3,000 rubles (US\$17 – \$100); 30 percent — from 3,000 to 10,000 (US\$100 – \$330); 14 percent — from 10,000 to 30,000 (US\$330 – \$1,000); 11 percent — from 30,000 to 150,000 (US\$1,000 – \$5,000). The amount of bribery exceeded one million rubles (US\$33,000) in only 1.5 percent of cases. 70 percent of persons convicted of bribery also received probation. This trend continues today. In 2010, the amount of bribery was 500 to 10,000 rubles in 65 percent of cases equivalent, from 10,000 to 50,000 rubles in 18.5 percent. Only 35 individuals (2.7 percent) were convicted for taking bribes in

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<sup>16</sup> Some five trillion rubles (US\$162 billion) are spent on state procurement annually. According to President Dmitry Medvedev, 20 percent of that, or one trillion rubles, is handed out as kickbacks and other forms of corruption.

<sup>17</sup> Н. Козлова, “УК все должности покорны,” *Российская газета*, December 9, 2011, <http://www.rg.ru/printable/2011/12/09/bastrykin.htm> (accessed December 10, 2011).

<sup>18</sup> General Prosecutor Office, Annual Report about the state of law and order for 2009 (Moscow, 2010).

excess of one million rubles.<sup>19</sup> It is extremely rare that the courts confiscate property in corruption cases.

### **Concluding Remarks**

Russia's corruption results in a massive drain on its economy and society, and holds the country back in almost every possible way. It slows economic growth by creating substantial de facto taxes on businesses, and significantly reduces the value of the government investments in infrastructure and social welfare. It simultaneously thrives on and reinforces Russia's weak rule of law and, thereby, creates a situation in which Russia's leaders cannot establish a truly law-governed state without threatening the livelihoods of a large share of the country's elite. Furthermore, it contributes to frustration and pessimism.

The public attitude to measures to combat corruption remains more than skeptical. Only 12 percent of citizens have faith in the actions of the authorities, while 42 percent believe that the measures taken have not resulted in any improvement.<sup>20</sup>

Given the high degree of social danger of corruption, it seems necessary to take a number of organizational and legal measures:

- Adopt the Federal Law "On regulation of lobbying activities in the organs of power";
- Adopt in rem confiscation – the seizure of an object (e.g. property) based on suspicion that it constitutes proceeds of a corruption crime<sup>21</sup>;
- Eliminate corruption provisions contained in the Federal Laws "On placing orders for delivery of goods, works and services for state and municipal needs" and "On privatization of state and municipal property";

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<sup>19</sup> Supreme Court, Annual Reports on the state conviction, 2009–2010.

<sup>20</sup> А. Литвинова, "Только 9 человек из ста не научились давать взятки," *РБК Daily*, June 15, 2011, [www.rbcdaily.ru/2011/06/15/focus/562949980430428/print/](http://www.rbcdaily.ru/2011/06/15/focus/562949980430428/print/) (accessed August 3, 2011).

<sup>21</sup> Currently, Russian law only allows in personal confiscation – the seizure of an object from an individual based on proof that the object is proceeds of the crime for which the individual is on trial/convicted.

- Strengthen control over well planned and effective spending of budgetary funds and the use of public (municipal) property;
- Reduce the categories of officials enjoying immunity from prosecution to the minimum required in a democratic society, and thoroughly revise the procedures for lifting immunity and establish guidelines on their use;
- Intensify the fight against corrupt senior officials of law enforcements to enhance their credibility among the population;
- Ensure appropriate control of the proceeds of state (municipal) employees, other officials and members of their families;
- Improve mechanisms for cooperation and coordination between regulatory and law enforcement agencies;
- Improve the international legal framework for cooperation (including for the timing of execution of requests, extradition and confiscation of criminal proceeds).

# The Police Reform in Russia: A Preliminary Evaluation

*Alexandru Molcean and Greg Nizhnikau*

## Introduction

The launch of the Russian Ministry of the Interior's (MIA) reform gathered great political importance recently, when the activities of its personnel came under public scrutiny. They were involved in a number of serious incidents such as the case of Major Denis Evsukov who opened fire in a supermarket in Moscow; the murder of a journalist in Tomsk at the local police station; the "revelations" of Major Alexei Dymovskiy when he accused his colleagues of abuse of power; and a number of corruption scandals. As a result, public concern over the constant abuse by the ministry of its rights and the inability to properly fulfill its duties became the impetus for President Dmitry Medvedev's police reform law, which he proposed in 2009 and became effective on March 1, 2011 with an implementation budget of RUR 600 billion.<sup>1</sup>

According to official statistics, three million crimes were registered in Russia in 2009. According to an independent study by the General Prosecutor's Office Academy, the real number of crimes in 2009 reached up to 26 million. While President Medvedev admitted that he does not believe this figure, official statistics show a significant decrease in the number of murders from 34,200 in 2001 to 18,200 in 2009. However, the figure would reach 46,200 if all the reported murders were registered. Even this figure appears incomplete, considering the fact that in 2009 there were 77,900 unidentified dead bodies and another 48,500 people were reported missing according to the same report.<sup>2</sup> It is no wonder that public confidence in the police is

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<sup>1</sup> "Реформа МВД обойдется в 600 миллиардов рублей," *Kasparov.ru*, March 4, 2010, <http://www.kasparov.ru/material.php?id=4B8FA0D3C65A8> (accessed June 12, 2011).

<sup>2</sup> Alexandra Odyнова, "10-Year Study Slams Police Crime Figures," *The Moscow Times*, January 17, 2011, <http://www.themoscowtimes.com/news/article/10-year-study-slams-police-crime-figures/428937.html> (accessed February 12, 2011).

so low – between 10 and 20 percent in polls. According to official statistics there was a 13 percent fall in crime in 2010, while the real figure was a 2.4 percent increase. The police reform is supposed to challenge the problems that Russian primary law enforcement agencies face.<sup>3</sup>

## **The Police Reform**

The key points of the police reform can be summarized in six major goals:

- To reduce police personnel by 20 percent – in order to make the structure more efficient and to secure funds for salary increases;
- To increase the salary for police personnel and improve social protection, including compensation for families in case of death, illness, or injury of on-duty policemen in order to raise the prestige of the profession and minimize the risk of corruption;
- To reorganize the police structure in order to make it capable of tackling modern challenges;
- To finance the police from the federal budget so as to guarantee the independence of law enforcement bodies from the local government and establish a new anti-corruption mechanism to increase legitimacy of the police;
- To limit excess responsibilities in order to make police more efficient and compact;
- To prevent abuse of power and corruption by regular rotation of positions between top staff.

A symbolic measure was an additional component of the reform – the renaming of the agency from “Militia” to “Police” in order to distance it from the Soviet past. Moreover, the police bill introduced a number of new legislative provisions, including the addition of the code of conduct, the requirement that police officers take part in law education; as well as the

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<sup>3</sup> Yakov Gilinskiy, “Russia,” in Walter Kegö, Erik Leijonmarck, Alexandru Molcean, eds., *Organized Crime and the Financial Crisis: Recent Trends in the Baltic Sea Region* (Stockholm-Nacka: Institute for Security and Development Policy, 2011), p. 114.

introduction of the Miranda rule,<sup>4</sup> which was not a part of the country's legal framework prior to the reform.

## **Analysis of the Police Reform**

### *Anti-corruption Component*

As one of the first initiatives, the MIA disclosed in March 2010 the income declarations of its top officials and their families. According to the General Prosecutor's Office which conducted an investigation (primarily in the Republic of Bashkiria) and published its results on March 23, 2011, declarations of income of officials including those from MIA were flawed. Some 1,929 violations were found, including falsified information and simultaneous work for government and private companies. This investigation highlights that contemporary Russia is a country where the government consists of a network of corrupt officials who enact laws, de jure enforce them and de facto openly violate them in order to pursue their own economic and financial interests.

Both the government and President Medvedev have underlined the importance of the fight against corruption as part of the police reform. The president pointed out that "It is the duty of the police to expose those who abuse their position. It is necessary to target these corruption schemes and expose the attempts at squandering state funds."<sup>5</sup> However, even though the anti-corruption program is one of the main pillars of the police reform, its efficiency is doubted. Corruption is a huge problem not only for law enforcement agencies but for all government agencies. It is therefore not surprising that Transparency International ranked Russia number 156 in its Corruption Perceptions Index (2.1 on a 10 point scale) in 2010. In recent years Russia's performance was degrading – 2.8 (2004), 2.4 (2005), 2.2 (2009) – despite numerous anti-corruption programs and campaigns, as well as the work of committees established at the highest level.<sup>6</sup>

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<sup>4</sup> The rule that police, when interrogating you after an arrest, are obliged to warn you that anything you say may be used as evidence and to read you your constitutional rights (the right to a lawyer and the right to remain silent until advised by a lawyer).

<sup>5</sup> "Russian Police Prepare for Major Overhaul," Ekaterinburg.Com, February 9, 2011, [www.ekaterinburg.com/news/print/news\\_id-343896.html](http://www.ekaterinburg.com/news/print/news_id-343896.html) (accessed March 16, 2011).

<sup>6</sup> It is worth mentioning that Russia was 143th in the Corruption Perception Index for 2011 when the reform was launched.

The fight against corruption by establishing more committees and sub-committees has proved to be inefficient. Corruption is a systemic problem of the Russian state, and cannot be fought in selective areas within one ministry by decrees and committees. It requires drastic and comprehensive measures, which would be destructive for Putin's system of governing. It is more likely that reshuffling, as another countermeasure, will generate more corruption; with superiors demanding bribes from subordinates in return for reappointment and protection.

#### *Salary Increase for Police Personnel and Improved Social Protection*

Low salaries of the police officers have been regarded as one of the primary reasons for corruption and abuse of power which have become widely accepted. According to the police reform, increased salaries will boost professionalism and decrease corruption among officers. President Medvedev has proposed a salary increase of up to double by 2012. The salary of a lieutenant would be 33,000–45,000 rubles as opposed to the present 15,000–20,000, which is the level of a municipal bus-driver. However, according to the proposed legislation, the number of benefits available will decrease from 40 to eight. The initiators of the reform are planning to increase salaries based on savings resulting from personnel reduction, but it is unclear whether they have considered the fact that a large sum of that money will be consumed by the costs of redundancy payments and restructuring. This makes experts doubt that the proclaimed goal will be reached. They have estimated the actual increase to be 15–20 percent, which is simply not enough. On the other hand, some experts believe that even a salary as high as 45,000 rubles is not enough in regions such as Moscow. However, it should be noted that even a significant increase of salary is not a panacea against corruption. The World Bank points out that a high level of corruption is associated with the lack of civil liberties and is not directly dependent on the amount of a salary; thus, just increasing the salary does not solve the core problem.

#### *A Reduction of Police Personnel*

The 20 percent reduction of the police force, which currently numbers 1.4 million, is regarded as one of the most important steps in the "debureaucratization" of the police and as an additional source of funding of the reform. All officers will have to go through recertification, thus getting rid of officers

who are corrupt or incompetent. However, there are different views on this aspect of the reform. On one hand, commentators point out that the real problem is the inefficient use of existing resources. Mark Galeotti, a professor at New York University, notes that MIA staff includes 180,000 paramilitary Interior Troops,<sup>7</sup> an unknown number of unfilled positions and a larger proportion of bureaucrats reported to active police officers than in many other countries. Over half the United Kingdom's police of 240,000 are officers, but the Russian figure is probably closer to 40–45 percent. On the other hand, there could be no actual reduction of the existing force. Despite President Medvedev's calls, Interior Minister Rashid Nurgaliev stated in 2010 that no one would be sacked; the best employees from regions would be offered positions in the central apparatus of Moscow, while those from Moscow would be sent to the regions to improve their performance.<sup>8</sup> In December 2010 Moscow's Head of Militia announced a 30 percent increase in staff and by 2012 this increase could be used for reductions along with unfilled positions in the police apparatus. This is estimated to be in the tens of thousands.

#### *Reorganization of the Police Structure*

Reorganization of the police structure, which remains unchanged since the Soviet era, is very important for efficiency and ability to meet new challenges. Unfortunately, there has not been any substantial update. President Medvedev's vague demand to disband two out of 15 departments could hardly be regarded as a solution. Moreover, it turned into farce when two departments were simply merged with one another and continued to function untouched with the same allocation of budget resources. A similar process occurred in 2009, when Medvedev ordered the abolition of the MIA's department for fighting organized crime.

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<sup>7</sup> Mark Galeotti, "Medvedev's Law on Police: a quiet revolution?" Open Democracy, Russia Post Soviet World, March 1, 2011, <http://www.opendemocracy.net/od-russia/mark-galeotti/medvedev-s-law-on-police-quiet-revolution> (accessed March 15, 2011).

<sup>8</sup> Peter Skobelev, "Реформа МВД займет два года и не потребует отставок," Российская газета, December 25, 2009, <http://www.rg.ru/2009/12/25/reforma-site-anons.html> (accessed March 2, 2011).

### *Staff Rotation*

Regular rotation of personnel is regarded as another mechanism to prevent power abuse and embezzlement by police officers; however, its efficiency could be doubted. Regular rotation could create chaos and limit the ability of senior staff to tackle problems as they could be seen as “lame ducks.” Moreover, in contemporary Russia (with pervasive corruption), it could lead the officer in charge into predatory behavior of extracting as many resources as possible within a limited period of time. As Mikhail Babaev, a Professor of the Scientific Research Institute of the MIA, notes: “If a person has the intent to engage in corruption, then the rotation can only suspend his corruption activities for a short while, but he will quickly find the way in a new environment.” For instance, a *Novaya Gazeta* investigation found that, after his new appointment to the Far East, General Felix Vasilkov, relocated his Moscow team and placed them on new “profitable” positions.

### *Financing of the Police from the Federal Budget*

As noted above, the official reason for the financing system change is to exclude cases of involvement of local administration in the law enforcement process. This will offer the police a certain degree of independence at the local level. However, nobody took into account that the reform will also centralize and enhance the control over the police and make it dependent on the federal center. Whether or not it results in a better police force remains to be seen, but shifting the budgetary responsibility to the center will certainly help to further consolidate Moscow’s grip on the regions.

## **Previous Experience of the Police Reforms**

President Medvedev’s reform of the law enforcement agencies was preceded by a number of reform initiatives under his predecessor and mentor Vladimir Putin. In this regard, the historic parallel could serve as a better understanding of the latest initiative.

In 2001, 275,000 employees were transferred to the Ministry of Emergency Situations from the MIA, which was deprived of firefighting functions; in 2003–2006 a political campaign was launched against the “werewolves in

uniform." In June 2007, when Putin was preparing to become prime minister, the General Prosecutor's Office was deprived of investigation units to the benefit of the MIA, where the Investigation Committee to the MIA was formed.<sup>9</sup>

Professor Leonid Kosals has noted that all these actions were not reforms aimed to provide better security services to the public or to reduce criminal activities, but to provide organizational restructuring, criticize corrupt officers in the media, and punish select individuals according to various political needs. The government's most important desire was to expand administrative control over the police and to restrict its autonomy, so that it could better deliver services to the authorities. These include security, direct violence against political opponents (liberals, communists, nationalists and fascists), and business take-over. However, the police only work diligently under special orders from top ranking officials in politically sensitive cases with little efficiency.<sup>10</sup>

### **Preliminary Results of the Reform**

The efficiency of some of the measures has already been questioned, including the very first initiative as well as the original intentions of President Medvedev, who acknowledged full responsibility of the reform.<sup>11</sup> Nevertheless, the necessity of the reform is quite apparent, taking into account the criminal situation in Russia and the inability of the government to respond to the security threats to the public — more importantly, the state and the ongoing tendency of the criminalization of the state institutions. Overall, the law enforcement agency is involved, in some way, in most of the serious crimes. However, the intentions of the reformers are less evident, if the preliminary results of the reform are analyzed. President Medvedev recognized the problem stating that certain criminal groups "have built up around the branches of power and business," underlining that "it was almost impos-

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<sup>9</sup> Also before Putin in 1998 the penitentiary system was transferred from the Ministry of the Interior to the Ministry of Justice.

<sup>10</sup> Leonid Kosals, "Police in Russia: Reform or Business Restructuring?" *Russian Analytical Digest*, 84 (October 19, 2010), e-collection.library.ethz.ch/eserv/eth:2218/eth-2218-01.pdf (accessed February 12, 2011)

<sup>11</sup> According to Medvedev, "You have asked a rhetorical question here, 'who is responsible for this reform?' I'll tell you who is responsible: it's the country's president. Not the minister, not civil society, but the president is responsible for that." Quoted in Robert Bridge, "Russian police prepare for major overhaul," *Russia Today*, February 8, 2011, <http://rt.com/politics/russia-police-medvedev-reform/> (accessed June 14, 2011).

sible to tell where any particular criminal group ends and where a business community or a power branch begins.”

The results of the reform show that the government has been able to shift all administrative and appointment power to the federal government. The centralization of power to the corrupt and dysfunctional federal government is one of the primary outcomes of the reform. This step can break the strength of regional power groups or governors (who often are heads of these groups and who occasionally are appointed by President Medvedev under condition of the approval of his supervisor) over local police. Although it may seem plausible to have an oversight from federal government and President Medvedev, who is personally involved in the resolution of problems and reform process,<sup>12</sup> the central government has proven its inability to tackle problems or control in its own apparatus. Within the “vertical” power system that was built by the national leader of Russia and its current prime minister. Without resolution of the core problems, any number of reforms or supervisory commissions within or outside the MIA will be a waste of time and resources. The coordination and supervision on the federal level is a necessity and obligation of the central government; but the centralization of power is an inefficient enterprise.

Another important outcome is the decrease in the number of organized crime fighting personnel. In the new organization, only 15 officials will continue this work. Taking into account the words of Gen. Ovchynskiy that “MIA anti-mafia units constantly turn into mafia minions,”<sup>13</sup> it is easy to understand that one of the biggest problems in the society is left beyond the reach of the ministry. It is one of the signs of the destruction of the administrative system, in which the department is liquidated under the influence of different groups of influence within the MIA and outside, under unofficial mutual agreements. Moreover, new legislation envisions that the rapid expansion of administrative personnel within the MIA apparatus will outnumber law enforcement officers by three times.

The drawbacks have already been pointed out. Most changes are seen as cosmetic, such as the renaming of the force; and the bill offers little public oversight. “There is no public oversight — the same corrupt officials

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<sup>12</sup> As an example of his devotion, the President proposed to increase the personnel of cynologists.

<sup>13</sup> “Овчинский VS Коварский,” *The New Times*, No. 44–45, December 27, 2010 (accessed February 12, 2011).

will oversee the reform. This law doesn't solve anything."<sup>14</sup> Human rights groups say the bill cements crime-solving quotas and promotions that encourage police to deliver confessions at any cost. Amnesty International said in its annual rights report that Medvedev's reforms were "piecemeal" and would fail unless Russia also tackled corruption and collusion among police, investigators and prosecutors.

### **Concluding Remarks**

The evaluation of the efficiency of the police reform in Russia could be done by comparing it to other countries experiences, which are generally considered as successful; post-Soviet Georgia in particular. The reform in Georgia consisted of similar components as the Russian reform, including the decentralization of the Ministry of the Interior and the change of personnel, significant increase of salaries, reduction of the number of duties by eliminating structures, and transfer of personnel to other ministries, and it yielded solid results.<sup>15</sup> However, unlike Georgia, there is lack of political will behind the police reform in Russia. Thus, there are no practical decisions on how to achieve the stated goals, and how these changes could be implemented. It seems that another opportunity has been missed.

What is seen is how the Russian government is ready to spend again — as was previously announced, the "historic law" will incur costs amounting to RUR 600 billion. On the bright side, at least the new web site of the MIA is now user-friendly. On the dark side, the future looks like "gloom, boom and doom" (courtesy of Marc Faber). In one flacon: without the reform of the ministry, the Russian government will be unable to perform its main duty — to guarantee security of its citizens or their property. However, it is unrealistic without the overall reform of the system, in which MIA is one of many government mechanisms that do not function. This will affect political, economic and societal security, as it endangers political elites of the country by undermining their legitimacy.

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<sup>14</sup> Gennady Gudkov, deputy chairman of the security committee of the Russian Parliament.

<sup>15</sup> For more details on Georgia's Police reform, see "The Current Status of Police Reform in Georgia," [http://kms2.isn.ethz.ch/serviceengine/Files/RESSpecNet/106057/ichaptersection\\_singledocument/2BA08920-E9EE-4565-99DE-AF42EF5ECB29/en/13\\_ChapterXII.pdf](http://kms2.isn.ethz.ch/serviceengine/Files/RESSpecNet/106057/ichaptersection_singledocument/2BA08920-E9EE-4565-99DE-AF42EF5ECB29/en/13_ChapterXII.pdf) (accessed March 2, 2011).





**Part II:**  
**Impact of Russian**  
**Organized Crime in the**  
**Baltic Sea Region**



# Sweden

*Christina Wenngren and Walter Kegö*

## Introduction

In recent decades new types of organized crime have emerged leaving the authorities several steps behind. One of the most prolific is Russian organized crime. Despite being widely recognized as a problem to the general public in Sweden, little is known about its proliferation in the country. The authorities are well aware of its existence but less is known about the extent or what can be done in order to prevent its proliferation in Sweden.

The most common illegal activity of organized crime groups is economic crimes, such as money laundering and forgery, but they also engage in trafficking of drugs, alcohol, tobacco, and humans, as well as arson, racketeering, tax evasion, murder, extortion and theft.<sup>1</sup> Trafficking of women has obtained a lot of media attention in Sweden in recent years, but remains only one form of trafficking conducted by organized crime.

Russian organized criminal groups are often referred to as the “Russian mafia,” but this is a misleading description. The notion of “mafia” is related to criminal groups in Italy which are organized in a very structured and hierarchical way. This is not the case in Russia, or the countries of the former Soviet Union, where groups consist of different constellations that, to various degrees, are in contact with each other.<sup>2</sup> Unlike the Colombian, Italian, or Mexican cases, organized crime originating from the former Soviet Union is not primarily based on ethnic or family structures.<sup>3</sup>

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<sup>1</sup> U.S. Department of Justice, Office of Justice Programs, National Institute of Justice, “Major Transnational Organized Crime Groups,” nij.com, November 15, 2007, <http://www.nij.gov/topics/crime/transnational-organized-crime/major-groups.htm> (accessed November 11, 2011).

<sup>2</sup> Fred Burton and Dan Burges, “Russian Organized Crime,” stratfor.com, November 14, 2007, [http://www.stratfor.com/weekly/russian\\_organized\\_crime](http://www.stratfor.com/weekly/russian_organized_crime) (accessed November 10, 2011).

<sup>3</sup> James O. Finckenauer and Yuri A. Voronin, “The Threat of Russian Organized Crime,” U.S. Department of Justice, Office of Justice Programs, National Institute of Justice, NCJ 187085, June 2001 <https://www.ncjrs.gov/pdffiles1/nij/187085.pdf> (accessed

Within the Russian groups, as opposed to the Italian mafia, hierarchy, work tasks and control can differ from project to project and over time. Aspects like common language, tradition and ethnic heritage are seen as more important and have served as decisive building blocks in building up the solidarity needed for leaders when they are organizing the criminal group. Groups are mainly based within the Russian Federation and their structure is a legacy from the Soviet era. They differ from the types of organized crime groups previously operating in Sweden.

In contrast to the Italian mafia, there is no “Godfather” at the top of the Russian crime organizations. These networks are rather led by several criminal authorities called *vory v zakone* or “thieves-in-law.” These top positions are surrounded by ceremony and informal rules, but there are no written “codes of honor” for ordinary members. In this way, these groups differ from, for example, the Italian mafia.<sup>4</sup> In order to counter these organizations, it is important to understand the structural differences between the world of the mafia and that of Russian organized crime.

The Russian world of organized crime consists of different constellations. These include some of the most powerful criminal organizations in the world, with names that indicate the place or the leader, such as the Solntsevskaya bratva, and the Orekhovskaya banda, infamous for their hatchet men. Some other renowned groups are the Malyshevskaya and Tambov crime group in St. Petersburg and the Dolgoprudunskaja and the Izmailovskaja in Moscow.

During the 1990s some influential criminals of Soviet origin decided to relocate to Stockholm. It is worth noting that many of them still live in Sweden and continue to be involved in economic crime activities. According to reliable sources, one such figure returned to Russia with SEK 35 million, money earned by exploitation of the Swedish welfare system.

Russian organized crime groups are considered some of the world’s most powerful criminal syndicates and notorious for their use of violence, in which they surpass other criminal groups. At the top of their hierarchy some of the world’s most dangerous criminals are to be found, according to the U.S. Federal Bureau of Investigation.

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November 10, 2011).

<sup>4</sup> Burton and Burges, “Russian Organized Crime.”

It is inaccurate to describe organized crime of Russian origin as mafia-style hierarchies. It is more correct to see them as networks headed by powerful criminal individuals. This is true also for their operations in Sweden. There are structures within these networks, which are formed by personal connections, but the networks are put together mainly for specific projects. Criminal and social networks allow the leading individuals to become well connected, involving not only the leaders of criminal organizations within Russia but also the country's political elite. Russian criminal groups have in fact effectively infiltrated companies and state-run enterprises of many countries to an unprecedented degree.<sup>5</sup>

The term Russian organized crime has become less appropriate in contemporary Sweden, as not only criminals of Russian descent are involved. The term "Russian-speaking organized crime groups" may better describe the contemporary situation, as people from the Caucasus and other parts of the former Soviet Union are also involved. Anyone can become a thief-in-law as long as they conform to the internal codes. For example, one internal code is to never have worked legally, to pursue subsistence through the proceeds of illegal operations and never cooperate with authorities.

Although many of the criminals may come from other former Soviet republics, Russian organized crime is often the power behind organized illegal activity pursued by "Russian-speaking criminals" in Sweden.<sup>6</sup> While much of the "dirty work" is performed by other Russian-speaking groups, the ultimate beneficiaries are nevertheless often found in, for instance, St. Petersburg.<sup>7</sup> The main sources of funding and expertise are found among those at the top, most often in Russia. This is often the case, whether it is through the Caucasian networks with a Georgian "thief-in-law" at the top or the smuggling of amphetamine from Estonia. At present, Russian groups play a central role in all organized crime groups originating in the former Soviet Union and operating in Sweden. This does not mean that the top tier consists exclusively of ethnic Russians. At the apex of the Russian criminal hierarchy are also several Georgian and Azerbaijani nationals. These bosses are responsible for different countries in Europe. Occasionally Swedish authorities obtain the identities of individuals operating in the country.

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<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Interview with high-ranking police officer, Swedish National Police, October 7, 2011.

However, false names and addresses are often presented to the immigration authorities making it difficult to determine their exact whereabouts.<sup>8</sup>

During the past decades, Russian organized crime in Sweden has taken different forms. Criminals linked to organized crime groups who came to Sweden in the early 1980s engaged mainly in the smuggling of goods and narcotics. These criminals were often referred to as “life-style-criminals” as they, with their distinct criminal background, were in Sweden with the expressed purpose to make money through illegal activities such as theft and extortion. Following this, other forms of criminals could be identified and as bilateral ties between Sweden and Russia grew, a new type of Russian “businessman” emerged.

These so-called businessmen were, and still are, strongly linked to extensive criminal organizations in Russia. Recently, some have been involved in Swedish companies and have even gained the attention of public media on several occasions. Their main focus is economic crime. They represent well-known and powerful criminal groups that have their own companies that take advantage of the country’s financial system, and often involved in economic crimes such as money laundering.

These criminals have also been known to take illegal and systematic advantage of the Swedish welfare provisions.<sup>9</sup>

### **Problem Awareness**

The fight against Russian organized crime is prioritized by both the United Nations and the European Union, especially in Southern Europe. However, officials working within the prevention field are generally of the opinion that there exists inadequate knowledge about organized crime in Sweden.

The extent of the influence of the criminal organization is a principal reason. It would be highly inaccurate to compare Sweden with countries such as Colombia, or areas such as Sicily. But organized crime problems nevertheless exist in Sweden. The notion that “the problem is worse elsewhere” may be detrimental in the long term. While the Swedish National Police monitor the problem, their capability for decisive action is hampered

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<sup>8</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

<sup>9</sup> Interview with high-ranking police officer, Swedish National Police, October 7, 2011.

by a lack of resources, both human and otherwise. Threats and corruption have traditionally been uncommon in Sweden, but recently such cases seem to have increased. The Swedish National Bureau of Investigation in Sweden has established a department dealing with corruption.<sup>10</sup>

Although the notoriously violent organized crime syndicates such as Italy's Cosa Nostra or Japan's *yakuza* do not operate in Sweden there are several criminal clusters believed to operate in the country, competing for market shares and using lethal violence to achieve their objectives. Swedish companies remain targets of extortion, fraud and even kidnapping for ransom. Such threats are mainly aimed at companies situated in a "grey zone" on the legal-illegal scale among companies, where owners do not feel comfortable asking for legal assistance. However, this is not always the case, as was demonstrated by restaurant owners Masoud and Shahnaz Garakoei in Gothenburg, who in 2003 were approached by an infamous motorcycle gang claiming they owned the area and demanded money in exchange of protection from the Russian mafia. Even large-scale and well established firms have been targeted such as the high-profile kidnapping of Fabian Bengtsson, SIBA.

Spanish law enforcement agencies have considerable experience in dealing with Russian organized crime and have processed several big cases. According to them, the reason for their successes in combating these criminal groups is that Spanish authorities have understood that the crime has to be looked at in a different way and cannot be compared with other types of criminality. One important part in the process of understanding is that Russian organized crime is often based on many smaller crimes that in their parts appear less harmful than in their interconnected, and significantly more detrimental, whole. The profits of these smaller crimes ultimately trickle upwards in the hierarchy of the groups. Discovering that it was the thieves-in-law who were actually controlling this criminality, the Spanish police were permitted to use coercive measures. The permission also extended to allow the pursuit of the leadership, who are usually difficult to apprehend. Sweden may learn from the Spanish experience and stop the entrenchment of these criminal groups.

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<sup>10</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

## Thieves-in-Law

At lower levels the criminal groups are often not as strict as the mafia is commonly perceived to be. Hierarchy and work assignments may occasionally be reversed. The rank of the Russian thieves-in-law is roughly equivalent to Godfather in the Italian mafia, hence the main leader of the different constellations, but they do not have the same kind of individual hierarchal power as the Italian Godfathers. The rank of a thief-in-law should instead be compared to that of an army general, of which there might be several, but there is an internal hierarchy between them, depending on mission and geographical area.<sup>11</sup> Despite these less rigid hierarchies, each mission has been shown to be well organized.

The thief-in-law is an old title created during the Soviet era by Joseph Stalin, who needed a better control system in the Gulag camps. The term was coined by Stalin himself, and defined Gulag-prisoners who were chosen to maintain order over other inmates in prisons. The ones selected for this task were high-level criminals who in exchange got protection from the law enforcement and could therefore freely perform illegal activities on the side with impunity. This gave the thieves-in-law a special position in different kinds of institutions during the Soviet era.

The thieves-in-law currently make up the elite in the Russian organized crime world. These are however no longer exclusively ethnic Russians but may also include those from the former Soviet Union or former Warsaw Pact countries. Their main responsibilities are to control companies, maintain the organization and mediate in conflicts between different parties within the organization.

In 2011 Interpol identified more than one thousand individuals that can be termed thieves-in-law. According to Europol, the thieves-in-law network spreads across all of Europe. More than half are born in Georgia, though many currently reside in Russia.<sup>12</sup>

In 2006 Georgia outlawed "thieves-in-law" by making it illegal to be a member of an organized crime constellation. As a result, many thieves-in-law left the country to take up operations and residence in Russia or

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<sup>11</sup> Interview with high-ranking police officer, Swedish National Police, October 21, 2011.

<sup>12</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

other European countries. One such country was Sweden, which has the questionable honor of being the first among the Nordic countries to host thieves-in-law. Swedish law enforcement authorities know that at least three thieves-in-law have been in contact with Sweden in the past and that another two have lived and operated in Sweden since 2009, one of which was apprehended by the police in the end of December 2011. The man was not charged for any of the crimes linked to his organization due to a lack of evidence. The police were able to charge him for the possession of drugs and forged identification papers. The thief-in-law was found guilty and, after several hearings, he was deported to his native Georgia January 17, 2012. The other thief-in-law living in Sweden is still expanding his criminal network in the country.<sup>13</sup>

Since 2009, Swedish authorities have been aware that these two thieves-in-law were expanding their criminal networks in the country. This, together with the additional three known suspects, is a strong sign that Russian organized crime is established in Sweden. If the Swedish authorities do not respond adequately, the situation will very likely worsen.

It is not only the thieves-in-law that have established themselves in Sweden, but also their collaborators. They include a large number of heavy criminals working directly under the thief-in-law, referring to the groups specialized in certain types of crimes such as theft, extortion, smuggling, robbery, arson, etc. One of the thieves-in-laws in Sweden also has a Smotrashije, the person who is responsible for collecting money both to the so-called "common criminal fund" and for the specialized criminal authorities. The Smotrashije is making sure the foot soldiers in Sweden commit different kinds of economic crimes, theft, robberies and all kind of welfare exploitation in the country in order to pay money to the fund.<sup>14</sup>

## **Modus Operandi**

With the opening of the European borders, as well as the other "four freedoms" of the EU, movement between member states has become easier. However, this development has also made it easier for criminals to operate

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<sup>13</sup> Interview with high-ranking police officer, Swedish National Police, January 18, 2012.

<sup>14</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

further outside the borders of their home countries. Increased mobility within the EU has increased opportunities for criminals, not only within the Union, but also for those living outside.

For instance, many criminals take advantage of the ease of establishing companies in other member states. Such companies operate as cover for illegal activities. Taken together with the Swedish policy to make it easier for third-country immigrants to work in the country, such opportunities have made Sweden attractive for criminals from other countries who wish to engage in illegal activities or employment. Russian groups have taken advantage of this by creating a well-functioning system assisting other criminals to take up residence in Sweden by helping their compatriots to obtain jobs as cleaners or similar employment in their newly started cover businesses. This makes it easy for the organization to expand while simultaneously making it increasingly difficult for the authorities to prevent criminals entering Sweden.

In the 1980s it was fairly common for Russian citizens to give false reasons for seeking asylum in Sweden or to arrange false marriages in order to obtain Swedish citizenship.

Currently there are also other methods to enter Sweden for criminal purposes. A common way for Russian organized criminal groups to come to Sweden and receive all the rights that this entails is to buy Bulgarian passports, thereby gaining access to the EU. In 2010 all Bulgarian passports were controlled in Sweden, and it was found that 30 percent were forgeries. It is quite easy to buy Bulgarian passports on the black market. It is also common for the owner of a forged passport, when caught in Sweden, to seek political asylum. This starts a long process at the Immigration Board where the personal information will be examined and the country of origin established. This gives the person ample additional time to conduct business in Sweden, or even to disappear. Often the person has not given his real name or address to the Immigration Service, making it impossible to locate him. It is mostly Bulgarian passports that are traded, but also Czech, Lithuanian, etc.<sup>15</sup>

False identities and stating false reasons for seeking asylum are often also used to enter Sweden. Through all kinds of false identities the crimi-

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<sup>15</sup> Ibid.

nals are able to establish companies, take bank loans and claim national registration through the Tax Revenue Office.<sup>16</sup>

Russian groups have also established networks in Sweden in order to more efficiently carry out their activities both in legal and illicit markets by employing sophisticated strategies and working methods. As a result they have been able to also infiltrate the Swedish economic and financial systems.

### **Bezpredel – the Period of Disorder**

According to Russian speaking criminals, Sweden has gone through a time period called “bezpredel,” which is the Russian word for “disorder.” This period is said to have taken place between 2006 and 2008, a time when newspapers contained several articles on murders, assaults, kidnappings, extortions, etc., many committed by Russians or Russian-speaking criminals. The period is viewed as before order was established, and a thief-in-law was called to Sweden in order to create stability of the criminal market.

Russian-speaking criminals already based in Sweden were supposed to collect money for the newcomer in order for him to be able to perform the bezpredel as good as possible. Many of those involved in the bezpredel are still residents in Sweden and have now established a solid base and network for their illegal activities in the country. Some of them are well-known by the authorities and some have already been deported several times, but due to false identities and the ability to remain unrecognized, they have been able to return time and again.

The thief-in-law who came to Sweden during the disorder left Sweden when the set time period had come to an end. His replacement was sent to establish a business in the country. He has succeeded and has now leads a stable and well-functioning organization in Sweden.<sup>17</sup>

Although the bezpredel was characterized by disorder, it is not the only period with murders, assaults and kidnappings; these phenomena have been constantly occurring. In 2010 a Russian man was shot in the head in central Stockholm. There were hundreds of witnesses and a media storm ensued. The perpetrator was caught, and it was found that both he and the

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<sup>16</sup> Ibid.

<sup>17</sup> Interview with high-ranking police officer, Swedish National Police, October 21, 2011.

victim were from Russia and well integrated in the world of organized crime, which had also given its approval to the attempted murder. Such examples show that organized crime can have a direct impact on ordinary citizens, as the conflicts often take place in the open and may harm bystanders.

### **Sources of Revenue**

Several of the top-ranking criminals working in Sweden are said to have connections with the authorities in their home countries. Authorities, both in the political sphere, such as ministries, and the security service, who are often very much involved in their companies, also in Sweden.<sup>18</sup>

The main source of revenue for organized crime in Sweden emanates from illegal economic activities, such as money laundering, stolen vehicles and illegal employment in, for instance, construction, laundries or restaurants. These companies normally operate under the same name for one year but when the Swedish Tax Revenue Agency begins to examine their balance sheets, they declare bankruptcy. At this stage they often claim to have several employees who by law are guaranteed outstanding salaries and salary during the period of notice according to the employment security act. In many cases the employees are fictitious and are using the same home address, a fact that is often overlooked by authorities. One example is an Azerbaijani who started a company in Sweden employing construction workers. However, the employees existed only on paper. This person became a Swedish citizen within two years, a process that usually takes five years. The man belongs to the Russian mafia and is number two in his network's hierarchy – number one, his boss, is a thief-in-law in Russia.

It has become increasingly common among criminals to start companies under false names in Sweden, in order to receive a Swedish business number. Only one Swedish citizen is required in a company in order to start a company, the rest of the staff can be from elsewhere. Criminal groups exploit this situation by using someone in the group having Swedish citizenship. Another method is to pay a homeless person to pose as the signatory of the company. The criminals need then to find a new signatory each time the company goes bankrupt.

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<sup>18</sup> Ibid.

This specific problem with fake companies is greater in other EU countries, such as in Germany and France, as both are seen to be much more attractive for criminals than Sweden. However, experts warn that the situation can easily change. Sweden is an open country which makes it fairly easy to establish a business. Furthermore, the social security system provides generous benefits, which can be exploited. This is used by economic criminals, who use the system to get revenue at the expense of the government. These kinds of groups are taking advantage of the Swedish welfare system. The salary guarantee system and the ROT reduction are taken advantage of by the organized crime groups. The criminals only need to hand in the papers to receive the money since there are no civil servants to investigate these matters. Currently, no real spot checks exist. The growing exploitation of the Swedish welfare system is the main difference between their operations in Sweden compared to many other countries. This may have contributed to the decision of the two renowned criminal leaders to take up residence in Stockholm mentioned above.<sup>19</sup>

A few big crime bosses live luxurious lives in Sweden, sometimes with residences in posh areas. Authorities are trying to map the situation, but they have a difficult task. At a first glance the criminal networks in Sweden, just as in other countries, seem to be very disorganized and unstable with alliances and rapidly changing conflicts. Finding the petty criminals seems to be fairly easy, but when it comes to those in the upper echelons it becomes virtually impossible, since they do not conduct any of the criminal activities themselves and are well protected. The actual work is done by their henchmen, who give their bosses ten percent of what they earn. It is very difficult in legal terms to link the man at the top of the hierarchy with actual crimes.<sup>20</sup>

Other large-scale criminal activities in Sweden are trafficking of alcohol, tobacco and people. The penalties after conviction are very low for the smuggling of alcohol and tobacco into Sweden. For a truckload of cigarettes, the maximum penalty is up to one year imprisonment, which may be an inadequate disincentive, as a truckload is worth several millions SEK. This can be compared with smuggling ten kg of narcotics, where the penalty

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<sup>19</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

<sup>20</sup> Ibid.

is up to ten years in prison. Furthermore, it is those furthest down in the hierarchy who take the immediate risks, not the bosses.

The modus operandi of the criminals seems to be well-organized. They are able to adapt to different situations, discover new possibilities and change their supply chains to meet changing demand. There are signs that the Russian organized crime groups are increasingly using Swedish banks for money laundering, a problem that Sweden is still quite unprepared to combat.<sup>21</sup>

### **Bridging Groups**

Russian organized criminal groups have established important connections with groups in the Baltic countries, with the specific aim to become more efficient and gain easier access to the Baltic Sea and Northern European markets. As the Baltic countries are members of the EU, their citizens can easily move into and within countries such as Sweden, the most desired market among the Nordic countries. Due to their function, the criminal groups from the Baltic countries are referred to as “bridging groups.” Russian, or Russian-speaking criminal groups deliver the goods, mostly cigarettes and amphetamine, to, for instance, an Estonian group. In its turn, this group then travels in the EU, selling the goods to their contacts in countries such as Sweden. It is also easier for Baltic nationals to establish businesses in Sweden, being able to bring non-EU citizens into the country by claiming they will be employed in the company. Recently there has been a bloody conflict taking place in Sweden between some organized crime groups and high-ranking individuals. Events have escalated dramatically and heavy weapons have repeatedly been smuggled to Stockholm from Estonia to be used in the conflict.<sup>22</sup>

### **Competition**

Cases of violent competition between motorcycle gangs are well-known in Sweden. Gangs have increased their contacts with Eastern Europe, i.e. the

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<sup>21</sup> Interview with high-ranking police officer, Swedish National Police, October 7, 2011.

<sup>22</sup> Interview with high-ranking police officer, Swedish National Police, October 21, 2011.

Russian organized crime groups. For the world of organized crime, racketeering is a business and those affected by it will in most cases not alert the authorities, as they themselves often make a living from illegal businesses and because they fear retaliation.

In order to gain respect within their own group and among the rivals, it is not uncommon to murder members, and rivals, who misbehave in appalling ways. One example is the murder of a Belarusian father in Stockholm in 2002. He was shot and maimed by three Russian-speaking men, all connected with the world of organized crime.

There is also cooperation between groups. It is known that two groups in Stockholm share responsibility for the smuggling of drugs and alcohol. However, they are first and foremost competitors and only partners of convenience. They would not hesitate to combat each other if any disagreements would arise.

### **Impact on Society**

Currently organized economic crime does not directly harm Sweden as a country. However, it is a growing concern that may lead to widespread societal problems if not tackled correctly. There may be adverse effects of the exploitation of the welfare system, although the practice is still too marginal to affect the system as a whole. Furthermore, Sweden is too small to draw the overtly damaging attention of Russian organized crime, albeit even small-scale activities can make criminals earn large fortunes.<sup>23</sup>

In terms of classic mafia methods, the Russian criminal groups do not generally approach domestic companies in Sweden to offer protection, often seen elsewhere. When Swedish companies have established themselves e.g. in Eastern Europe, they have been approached by these groups "offering" their services. A recent example of this is IKEA in Russia. Demands were made of payments in order to permit the company operate in the country. In Sweden, this pattern is mainly linked to certain nationalities living in the country, such as the Assyrians in Södertälje, who has been demanding money from other members of their community starting businesses. There are no known cases of Russian criminal groups extorting Swedish

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<sup>23</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

politicians as has been seen in many other countries, although bribe taking has become more common in Sweden.

During forums on international cooperation it is often stressed by Russians that organized crime groups in Russia have lost their power and influence. Some experts are prepared to accept that this as the case, but others claim that organized crime has developed and moved into the corridors of power, thereby growing even stronger and more influential than before. The organized criminal groups are increasingly involved in politics, private industries and in different public institutions, banks and authorities in order to reach the core of influence. This trend can also be seen, albeit on a much smaller scale, in Sweden.

Corruption was a part of the Soviet governance and society as a whole. It bred a system where people of influence could procure anything while the ordinary citizen was left without even the basic needs. Developments paved the way for an extensive black market, and gave organized crime gangs positions of great importance. It blurred the difference between underground crime and legal business. This is reflected in how the Russian organized criminal groups operate in Sweden and other countries.<sup>24</sup> They use methods such as expanding their network and establishing contacts with governmental institutions and big companies. In Sweden, this has affected restaurants, construction companies, laundries and some government institutions. In the latter case, the groups sometimes go so far as to train their own men so that they can become employed by the agencies and can serve as gateways for their future operations in the country.<sup>25</sup>

Recently, investigations into corruption in Swedish agencies have started. In one major Swedish institution there are concerns over employees assisting Russian groups with papers and procedures in order to be able to operate more conveniently and safely. The employment of these employees has probably been well-planned. These features of patience, careful planning and a long-term perspective seem to characterize how Russian organized criminal groups function. The corruption cases have been handed over to the prosecutor's unit, but in the end it was claimed that there were insufficient evidence to take more coercive measures.

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<sup>24</sup> Burton and Burges, "Russian Organized Crime."

<sup>25</sup> Interview with high-ranking police officer, Swedish National Police, October 13, 2011.

The Swedish Immigration Board has been accused several times for corruption, by law enforcement, as well as by the popular media. In 2003 two of its officers were accused of handing out 27 illegal citizenships. Many of the receivers were involved in upper echelons of Russian organized crime groups. The one with the highest rank in the underground Russian world witnessed that it had only taken him one month to get the Swedish citizenship, which he thought was strange, but he never acknowledged bribery to the police.<sup>26</sup>

## **Prevention**

There are indications that Sweden is a country with rising levels of Russian organized criminal activities. Sweden has also been warned by countries with more experience of the phenomena, such as Spain, which must be taken seriously.

In order to efficiently combat organized crime in Sweden the phenomena as such has to be properly mapped. This in itself would make it more difficult for criminals. All institutions need to be aware of this new kind of criminality. Otherwise, it can become a threat to Swedish society and rule of law as these groups are infamous for their methods of corruption and skills.

One major difficulty for the prevention of Russian organized crime is that members are hard to identify. These groups easily adjust to the market and quickly adapt to demand and change their entire business model in order remain one of the most lucrative businesses at any given time. The types of business they are involved in are lucrative in the sense that it not only brings in the largest profits but legal sanctions are also weak. It is often hard to find the links between crimes, penalties are given separately on each crime and the result will be the lowest possible sentence.<sup>27</sup>

This is problematic for Sweden. For the previously unfamiliar types of crime in focus here many individual illegal activities may incur low penalties, such as robberies, shoplifting, and small currency exchanges. As the punishment is not severe, the law enforcement agency will therefore not prioritize these crimes. Furthermore, as the punishment is not particularly high, the coercive measures are limited. Such cases have been seen, even

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<sup>26</sup> Ibid.

<sup>27</sup> "Hur organiserad är brottsligheten?" *Apropå 2* (2002), [http://www.bra.se/extra/pod/?action=pod\\_show&id=221&module\\_instance=12](http://www.bra.se/extra/pod/?action=pod_show&id=221&module_instance=12) (accessed November 10 2011)

though serious attempts to map these phenomena have been made, which show that these so-called smaller crimes are being conducted by the same group.

Furthermore, it needs to be understood that these kinds of criminals do not look like the “Mobster” or “Mafioso” in movies. They do not stand out in any way. In fact, they try to look as ordinary as possible, but would never hesitate to openly engage in armed conflicts among ordinary people (e.g. the shooting in Stockholm in 2010).<sup>28</sup>

Sweden is not alone in experiencing an expansion of organized crime. In Belgium and Austria, it has reached the sphere of public administration, in the form of corruption. Today, there are no regions in Europe immune to organized crime. If early warning signs are not taken seriously, the problem may escalate to an uncontrollable level. Such an example is offered from rise of the Sacra Corona Unita in the 1980s in Apulia in Italy. The authorities failed to crack down on the group and they were soon too powerful to break up.

In order to better tackle the phenomenon in Sweden a new model has been worked out. It is called the Arborist Model and boils down to an analysis by which organized crime is seen as consisting of parts or actors, which are analyzed separately. Important intermediate individuals who are surrounding the core are removed. In the end the core might remain, but has no major branches or operational ability. It therefore becomes vulnerable and is no longer a threat to society. This might not guarantee the arrest of the group’s leader, but the network around him would be weakened and the capability of the network is diminished to such a degree that the leader no longer poses a threat.<sup>29</sup>

## Concluding Remarks

A relatively stable network of organized criminals has been established in the Sweden. These criminals have been able to establish themselves easily as a result of the open society and a lack of information that prevents these kinds of crimes to be perpetrated.

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<sup>28</sup> Interview with high-ranking police officer, Swedish National Police, October 21, 2011.

<sup>29</sup> Interview with high-ranking law enforcement officer, Swedish National Police, November 1, 2011.

Due to their strong knowledge of networking, which creates possibilities for both establishing businesses and for non-EU partners to obtain residence permits in Sweden, the activities of these groups expand rapidly. The only way to fight the phenomenon efficiently is to carefully map it. Such a process will promote better understanding of this phenomenon. Members of Russian organized crime groups have varied backgrounds and professions; they can be rough criminals, oligarchs, a politicians, or businessman. There is no standard method of spotting these criminals.

Today, Russian organized crime does not do any direct harm to Sweden as a country, but there are indications that the phenomenon has begun to obtain a footing in public institutions and private companies. This is used to increase influence, exploit the welfare system and conduct illegal activities, and is a trend that has been taken seriously. Russian organized crime is a new type of criminal activity in Sweden and much has to be done in order to combat it and prevent it from expanding. There is a need for new strategies and new thinking in order to prevent the phenomenon from developing and integrating into the Swedish society.

In the framework of the Swedish asset recovery network meeting in 2012, Spanish authorities presented their domestic experiences with Russian organized crime groups and described how they were able to accomplish operation Java, where they uncovered Russian-Spanish crime connections. The outcome resulted in the arrest of 28 people, all of highest rank, the seizure of twenty luxury vehicles, the blocking of over ten luxury properties, the blocking of financial assets worth seventeen million euro, many valuable jewels, art pieces and two luxury boats. Only in Spain the total amount of money that the group had earned was remarkable. Furthermore they found out exactly how the group had been working in Spain and in which way the law enforcement has to act in order to apprehend the puppeteer instead of the puppets. Spanish authorities have now warned other countries, among them Sweden, about this trend and for the risk of being deceived by the way these constellations work.

Several thieves-in-law are already domiciled in Spain, taking advantage of the system and executing their operations. During the presentation the Spanish representative explained that this development can, and will, happen in any country where the Russian mafia is established, if not taken seriously.

# Estonia

*Liis Lill*

## Introduction

The organized crime situation in a country is mainly affected by the institutional rules of the political and the economic environment. The Estonian Republic shares its eastern border with the Russian Federation. The neighbors have held an intensive social and economic relationship for centuries. Along with trade and other legal structures, criminal networks have also developed and changed over time. Today, they have become project-based, economically motivated networks rather than strictly hierarchical and violent Soviet-like gangs with authoritarian leaders.<sup>1</sup>

This chapter provides a short overview of Russian-related organized crime in Estonia since 1991, a year that signifies the beginning of Estonia regaining its independence. The country is a small yet successful market economy, which attracts both legal businesses and criminal activities. Criminal organizations in Estonia are mainly economically motivated groups partially based on ethnicity but not religion.

The next section describes the historical background of the relationships between two neighbors, Estonia and Russia, with the aim to understand the development of institutional and economic conditions. Both are currently faced with combating organized crime in the region. The third section provides an overview of the main types of organized crime in Estonia as well as development trends of organized crime related to Russians. The fourth section analyzes the current situation and the last chapter summarizes the conclusions of this paper.

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<sup>1</sup> Mari-Liis Sööt and Liis Lill, "Estonia," in Walter Kegö, Erik Leijonmarck, Alexandru Molcean, eds., *Organized Crime and the Financial Crisis: Recent Trends in the Baltic Sea Region* (Stockholm-Nacka: Institute for Security and Development Policy, 2011), p. 26.

## Background

Estonia is located by the Baltic Sea between Finland in the north and Latvia in the south and has always played an important role for the prosperity of the countries along the Eastern Trade Road connecting Northern Europe with Asia. Until 1227, communities on the Estonian territory lived, more or less, peacefully with their neighbors. This peaceful period ended with the invasion and subsequent occupation of the territory by the Danes and Germans in 1227. During 1418–62, these territories were part of the Livonian Confederation. After the Livonian War (1558–83), Estonia was part of a union with Sweden. This era of Estonian history ended with the Great Northern War (1700–21), when Russia conquered Estonia. The local legal system, as well as religion and education remained under German influence until the beginning of the twentieth century. However, toward the end of this period Russia strongly increased its influence in the Baltic States.

In 1918, the Estonian Declaration of Independence was issued and the first Estonian Republic was officially established. Yet, it should be noted that the institutional relationships between Estonian counties at the end of Early Middle Ages are considered as the first state-like organization on the Estonian territory known to locals.<sup>2</sup>

The Estonian War of Independence in 1918–20 resulted in the Tartu Peace Treaty recognizing Estonian independence in perpetuity, but in 1940 Estonia was occupied by the Soviet Union as a result of the Molotov–Ribbentrop Pact. In 1941, Estonia was occupied by Nazi Germany, an occupation that lasted until 1944 when the Soviet Union took over. Together with the other Baltic states Latvia and Lithuania, Estonia was part of the Soviet Union until 1991. Today, approximately one third of the Estonian population is ethnic Russian.

According to Koit Pikaro, a former Estonian police officer, organized crime in Estonia emerged in the second half of the 1980s, when Estonia was still part of the Soviet Union. Criminal groups were usually run by ethnic Russians. The inheritance of the criminal power from fathers to sons or other family members has not become a tradition, as is the case of Italian mafia families. These groups still had some common characteristics,

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<sup>2</sup> For the history of Estonian state organization and constitution, see Rait Maruste, *Constitutionalism and Protection of Fundamental Rights and Freedoms* (Tallinn: Juura 2004).

however. Their leaders imposed the Russian criminal rules and were often former athletes or coaches and some actions were funded by the specially created budget based on regular payments from its members.<sup>3</sup> It is suggested that organized crime in Estonia dates back to the early 1980s, when the preparations for the Olympic Games generated an influx of construction workers and others who wanted to take advantage of the event.<sup>4</sup> Criminal groups were not very well organized at that time and mainly concentrated on fraud, pick-pocketing, and money laundering.

After regaining independence in 1991, Estonia aimed at quickly restructuring towards a market economy and introduced significant reforms to democratize the state. One of the key issues was building up a stable banking system. According to former Prime Minister Mart Laar, the entry of organized crime groups into the Russian economy and politics began with the takeover of banking.<sup>5</sup> Russians also tried to gain control over the newly established banks in the Baltic states. At the beginning of the 1990s, the Estonian government had to make it abundantly clear that laundered Russian money was not welcome in Estonia. However, the recent bribe scandal inside the Estonian Security Police structures may indicate to greater Russian influence on the Estonian governmental organizations than expected.<sup>6</sup>

Currently the Estonian banking system is predominantly under the control of Scandinavian banks – Swedbank, SEB and Nordea. Estonia was a very fast growing economy until the global financial crisis in 2008; the turbulence of the crisis is still being felt today.

Accelerated privatization in the first decade of independence radically changed structures of ownership and control over resources in the country.

<sup>3</sup> Koit Pikaro, "Organized crime still exists in Estonia," Delfi news, September 7, 2010, <http://www.delfi.ee/news/paevauudised/arvamus/koit-pikaro-organiseeritud-kuritegevus-pole-eestist-kuhugi-kadunud.d?id=33000555> (accessed September 14, 2011).

<sup>4</sup> Anna Markina, "On Profiling Organised Crime in Estonia," in *Organised Crime & Crime Prevention: What works?* Scandinavian Research Council for Criminology, 1998, p. 47, as quoted in Council of Europe, "Preventive legal measures against organised crime," *Organised crime – Best Practice Survey*, No. 9, PC-S-CO (June 2003) 3 E, Strasbourg 2003, p. 28, <http://www.coe.int/t/dghl/cooperation/economiccrime/organisedcrime/BestPractice9E.pdf> (accessed September 14, 2011).

<sup>5</sup> Mart Laar, "Estonia's New Beginning," in Karin Rannu, comp., *Estonia's Way into the European Union* (Tallinn: Estonian Ministry of Foreign Affairs, 2009), p. 10.

<sup>6</sup> "Director General of the Police and Border Guard Board explains the circumstances of the bribe case to the Parliament's committee," *Postimees*, January 9, 2012, <http://www.postimees.ee/696376/politseijuht-selgitas-riigikogu-erikomisjonile-altkaemaksujuhtumiga-seotut> (accessed January 22, 2012).

A liberal economic environment brought in foreign investments and opened new markets for Estonian goods and services, both of which rapidly fostered the successful development of trade relationships, especially export partnerships. In 2004, Estonia became a member of the EU. The accession of the country meant that Estonia's eastern border became a new frontier between the EU and Russia.

Criminal groups in Europe have profited from greater EU integration, in particular the EU's freedom of movement legislation. The step by step opening of new member states to traveling, conducting economic actions, working or living, has also fostered development opportunities for international criminal relationships. Corruption is often used to maintain the illegal flow of people (or goods) across the border by utilizing existing legal channels.<sup>7</sup> Drug smuggling, human trafficking for sexual exploitation and related social problems (such as drug addiction, HIV, prostitution) were largely unknown to local law enforcement bodies before independence, but they had to quickly re-orientate in the new structure created in the transition to a market economy. The total number of offenses increased by 3.7 times from 1991 to 2001 and the number of people convicted by the courts rose by 2.8 times.<sup>8</sup>

In 2007, shortly after Estonia joined the EU, Estonian-Russian relations hit a road block. It culminated with disorder in Tallinn as the Russian minority youth responded to the so-called "Bronze Soldier monument incident"; the rioting crowd vandalized and looted the center of Tallinn. However, Estonians took part in the looting too, mainly with the aim to freely acquire goods from the already vandalized stores. The economic impact was later estimated to be 1.3 million euros due to the related offenses. This left a large deficit as only 128,200 euros could be recuperated by the state through fines and compensation from identified offenders.<sup>9</sup> In relation to the incident, from

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<sup>7</sup> Jon Spencer et al., "Organised crime, corruption and the movement of people across borders in the new enlarged EU: A case study of Estonia, Finland and the UK," The European Institute for Crime Prevention and Control, *HEUNI Paper*, No. 24 (Helsinki 2006), p. 20, [http://www.heuni.fi/uploads/b7n54kjbxb1g\\_1.pdf](http://www.heuni.fi/uploads/b7n54kjbxb1g_1.pdf) (accessed September 14, 2011).

<sup>8</sup> Jüri Saar, "Crime, Crime Control and Criminology in Post-Communist Estonia," *European Journal of Criminology*, Vol. 1, No. 4 (2004), pp. 505, 506, 531. <http://euc.sagepub.com/cgi/content/abstract/1/4/505> (accessed September 14, 2011).

<sup>9</sup> Martti Kass, "The state has received about 100000 EEK as indemnifications from the Bronze night offenders," *The Estonian Daily*, September 29, 2009, <http://www.postimees.ee/169444/riik-on-pronksoo-purustustoos-osalenuelt-tagasi-saanud-ule-100-000-krooni>

April–May 2007, Estonia experienced several weeks of coordinated cyber attacks against its financial and social and political institutions. Although the origin of these attacks cannot be determined by investigation, in Estonia and among many analysts it is widely believed that Moscow was behind these attacks.<sup>10</sup> Therefore organized illegal or aggressive cyber actions must also be considered a serious international security risk.

### **Trends in Russian organized crime during Estonian independence**

At the beginning of the 1990s, organized criminal groups, mainly Russian in makeup, battled for dominance in Estonia. Their aim was to strengthen their influence in the recently founded state institutions. The structure of the Estonian criminal world was hierarchical. During the “bloody autumn” of 1994, about a hundred murders related to organized crime were committed — a considerable number given that the Estonian population was only around 1.5 million people at the time. Since then, organized crime in Estonia has become less violent. The influence of groups led by Russians has decreased since the 1990s and criminal networks with their roots in Estonia have strengthened.

During the initial step of the economic transformation process, the Estonian organized crime groups began extensive smuggling of precious metals from Russia to the West through Estonia, an activity often labeled the “Metal Age.” Gradually, most organized crime groups shifted their actions on new forms of economic crime and tax evasion, but also continued in drug, tobacco and alcohol smuggling, etc. — traditional areas for organized crime.<sup>11</sup> The market share of illegal alcohol was estimated to amount to 25–30 percent in the last decade. Before Estonia’s accession to the EU, a growth was predicted in the illicit trade of tobacco products.<sup>12</sup> Confiscations of illegal alcohol and tobacco packages are common at the Russian border. Cases of illegal goods trafficking have also comprised weapons smuggled from Russia to Germany through Estonia.<sup>13</sup>

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(accessed September 14, 2011).

<sup>10</sup> Stephen Blank, “Web War I: Is Europe’s First Information War a New Kind of War?” *Comparative Strategy*, Vol. 27, No. 3 (2008), p. 227.

<sup>11</sup> Markina, “On Profiling Organised Crime in Estonia.”

<sup>12</sup> Anna Markina and Jüri Saar, “An assessment of prospective changes in cross-border crime after Estonia’s accession to the European Union,” in Petrus C. van Duyne, Klaus von Lampe, Maarten van Dijk and James L. Newell, eds., *The Organised Crime Economy, Managing Crime Markets in Europe* (Nijmegen: Wolf Legal Publishers, 2005), pp. 91–106.

<sup>13</sup> Walter Kegö and Alexandru Molcean, “Russian Speaking Organized Crime Groups in the EU,” Institute for Security and Development Policy, *Stockholm Paper* (March 2011),

Estonian organized crime syndicates are active in drug trafficking to Finland. Estonia is also the transit country for other destinations. It has been reported that 70 percent of drugs entering the Nordic countries moves through Latvia and Estonia, often taking advantage of ferry services along the Baltic and Scandinavian coasts. Since Estonia's entry into the Schengen area, Estonian travelers to Finland are no longer subject to routine inspections at ports-of-entry, making it difficult to intercept narcotics. In the past, the Estonian smuggling rings primarily traded Belgian- or Dutch- made ecstasy into Finland, but at the beginning of 2003, larger quantities of Estonian-produced ecstasy began hitting the Finnish market. Russian traffickers based in St. Petersburg are the primary suppliers of heroin in Finland, although Estonians are considered active in this area as well. Heroin is primarily trafficked through Russia from Central Asia.<sup>14</sup>

The Estonian problem with drug addiction is strongly related to the Russian minority. In 2004, Estonia had 13,886 injecting drug addicts. Most of them lived in Harjumaa (where Tallinn is located) and in Ida-Virumaa. Estonia had one of the highest shares of injecting drug addicts in 2004, which was 2.4 percent among the population aged 15 to 44. In Estonia, 933 people died due to drug use during 2000–2010. In 2009, the number of drug deaths in Estonia was 161.<sup>15</sup> In 2010, 97 people died. Most of them (78 percent) were ethnic Russians; 55 percent lived in Tallinn and 26 percent in Ida-Virumaa; 25 percent of the cases were related to the use of fenthanyl-metylfenthanyl.

Russian criminal money laundering has become an important problem in the EU and Estonia. Due to the openness of the financial markets and huge possibilities for both real and fake business transactions, the problem has to be viewed in the global context. The Latin American experience shows that the Russian money launderers have demonstrated their financial sophistication. They obscure their illicit transactions within the larger movement of capital into and out of emerging markets by timing them to the speculative capital shifts, which occurred during the Mexican peso crisis

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pp. 31–61.

<sup>14</sup> U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, "International Narcotics Control Strategy Report 2006," Vol. I (2006), p. 152, [www.state.gov/documents/organization/62389.pdf](http://www.state.gov/documents/organization/62389.pdf) (accessed August 23, 2011).

<sup>15</sup> The 2010 report on the level of implementing of "The National Strategy for Prevention of Drug Abuse until 2012," pp. 11–26, [www.sm.ee/fileadmin/meedia/Dokumendid/Tervisevaldkond/Tervisepoliitika/Narkomaania/NERSaruanne\\_2010.pdf](http://www.sm.ee/fileadmin/meedia/Dokumendid/Tervisevaldkond/Tervisepoliitika/Narkomaania/NERSaruanne_2010.pdf) (accessed in September 14, 2011).

(1995), the Thai baht crisis (1997) and the Turkish lira crisis (2001), among other currency crises.<sup>16</sup> The current European and U.S. crisis is not over yet and its possible impact on Russian criminal organizations' money laundering system cannot be properly assessed. It can be assumed that criminal groups will make an effort to gain as much as possible from the crisis. It is obvious that the law enforcement agencies of all the EU countries suffer more or less from the crisis and it also decreases the amount of resources available to combat organized crime among other problems.

Together with drug trafficking and money laundering, Russian organized groups are involved in prostitution in the Western countries. Russian organizations play a dominant role not just in the trafficking of Russian women but also women from other countries in Eastern Europe. Furthermore, Russian organized crime was indicated to have taken over the sex industry in a number of West European countries and the Russian criminal groups were gaining control over prostitution in Israel, and parts of the United States.<sup>17</sup> At the beginning of the 21st century, approximately 120,000 women and children were trafficked each year into the European Union.<sup>18</sup> Around 175,000 women mainly of Russian and Ukrainian descent were trafficked annually from the former Soviet Union and East Europe. An estimated 70 percent of the Russian and East European victims are believed to have been sent to West European countries, about 15 percent are sent to the Middle East or the Far East. About 5,000, or three percent, are sent to United States or Canada.<sup>19</sup>

In Estonia, there have not been many human trafficking cases. Of course, human trafficking for sexual purposes is a sensitive social issue and it is often very hard to convict the actual culprits. Women are too terrified to testify or too dependent on their abusers. In Southeast Europe, estimates

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<sup>16</sup> Bruce Michael Bagley, "Globalisation and Latin American and Caribbean Organised Crime," *Global Crime*, Vol. 6, No. 1 (February 2004).

<sup>17</sup> Francis T. Miko, "Trafficking in Women and Children: The U.S. and International Response," CRS Report for Congress, updated March 26, 2004, pp. 8–24, <http://fpc.state.gov/documents/organization/31990.pdf> (accessed August 23, 2011).

<sup>18</sup> Jenna Shearer Demir, "Trafficking of Women for Sexual Exploitation: A gender-based well-founded fear? An examination of refugee status determination for trafficked prostituted women from CEE/CIS countries to Western Europe" (January 2003), p. 73, <http://www.jha.ac/articles/a115.pdf> (accessed September 14, 2011).

<sup>19</sup> Gunjan Kinnu, *From Bondage to Freedom: An Analysis of International Legal Regime on Human Trafficking* (New Delhi: National Human Rights Commission, 2006), p. 138, <http://nhrc.nic.in/publications/analhumantrafficing.pdf>, (accessed September 14, 2011).

were that 70 percent of trafficked women either cannot or do not intend to return home, due to a fear of persecution and the lack of trust in the local authorities to provide adequate protection.<sup>20</sup> The Estonian situation is better but it is still believed that the problem exists in harder dimensions than can be depicted by the courts' statistics.

Important changes have also occurred in the Estonian penal system. Camp-type prisons have helped to intensify relations between different criminally oriented people and their groups and the new prisons (Tartu) are more oriented to isolation than punishment.

### **The Current Russian-related Organized Crime Situation in Estonia**

Estonian authorities have set combating organized crime to be an issue of high priority.<sup>21</sup> According to the official 2009 crime statistics, the Prosecutor's Office sent to court 25 criminal groups related to drug-related crime (of which 10 were for cross-border drug-related crime); two related to trafficking in human beings, 19 related to money laundering; 11 related to corruption offenses; and seven related to economic crime.<sup>22</sup> There are no estimates of the real number of organized criminal groups known to the author. It must be taken into account that it is not always possible to prove during investigation that anyone belongs to a "criminal organization," or that a "criminal organization" exists in each case.

Smuggling drugs and other forms of economically profitable drug crime have traditionally been some of the most common economic activities among organized criminals. In the Eastern region, trafficking of heroin and fentanyl has increased. In Narva (the border city), people also bring small quantities of drugs from Russia for personal use, but several groups are smuggling large quantities of amphetamines or marijuana products from the Netherlands to Estonia, mainly for transit to Finland or Russia. Estonia is the main transit country for amphetamines to Finland but trafficking cases have also indicated flows from Russia to Estonia. In 2010, a car passenger from Russia carried 2,618 kg of liquid amphetamines hidden in

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<sup>20</sup> Ibid.

<sup>21</sup> "Laulasmaa Declaration," Justiitsministeerium, August 23, 2005, <http://www.just.ee/15087> (accessed September 14, 2011).

<sup>22</sup> Jako Salla, Laidi Surva, Mari-Liis Sööt, "Crime in Estonia in 2009," Estonian Ministry of Justice 2010, pp. 106–23, [http://www.just.ee/orb.aw/class=file/action=preview/id=51287/Crime\\_In\\_Estonia\\_In\\_2009.pdf](http://www.just.ee/orb.aw/class=file/action=preview/id=51287/Crime_In_Estonia_In_2009.pdf) (accessed September 14, 2011).

fire extinguishers. Another car passenger from Russia carried over 3 kg of GHB.<sup>23</sup>

Possibly the most remarkable case in recent years occurred in 2009, when the so-called "Voronin's group" was uncovered in East-Viru County. This criminal organization had run two independently operating groups, which employed 13 people. One group obtained narcotics from Tallinn and smuggled them across the Estonian-Russian border in Narva. The other group organized the selling of drugs through dealers in Estonia. Approximately 16,667 euros was confiscated from the group and a rented Lexus was returned to a leasing company.<sup>24</sup> It can be assumed that the actual criminal revenues of the group were higher. Estonian authorities are working on the confiscation rules to more efficiently deprive criminal assets.

In 2010, 901 drug-related offenses were registered, which accounted for two percent of the annually recorded crimes in the country. Of the drug-related offenses, 51 percent took place in Tallinn and 18 percent in Ida-Virumaa. A total of 18 groups involved in drug trading were charged, four of them acted nationwide. A group of 12 members trafficked drugs, mainly amphetamine and marijuana products, between Russia and Estonia. A 10-member group recruited drug smugglers from Estonia and organized heroin trafficking from Azerbaijan to Italy and from Turkey to Italy and Greece. In the same year, 10 people were charged for producing amphetamine in a laboratory. About 49 kg of amphetamines, 40 kg of marijuana products and 16 kg of GHB were confiscated. In one case, 217 kg of cocaine was confiscated. Illegal pharmaceutical drugs were discovered in 30 cases mainly from travelers from Estonia to Finland and from Russia to Estonia.

New trends have been seen in the drug market with the provision of the so-called designer drugs. Their creators produce new substances, which have similar effects with the well-known "drugs" but which are not prohibited. Substances on the market change quickly and the supply decreases after the authorities have change the law. Identification and prohibition of the new substances are time-consuming and require considerable resources that are taken from the law-enforcement agencies. For example, only three varieties of JWH (an alternative for cannabis) from about 300 were listed as prohibited in Estonia in 2010.<sup>25</sup>

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<sup>23</sup> Report referred to in footnote 15.

<sup>24</sup> Salla, Surva, Sööt, "Crime in Estonia in 2009."

<sup>25</sup> Asso Puidet, "The Pärnu people rather use 'soft drugs'," *Pärnu Postimees*, May 31, 2011, <http://www.parnupostimees.ee/454394/parnus-levivad-pohiliselt-kergemad-narkootikumid/> (accessed September 14, 2011).

The Estonia country overview by the European Monitoring Centre for Drugs and Drug Addiction indicates that the rise of trafficking and use of synthetic drugs, especially the amphetamines, is the most noticeable trend related to the drug offenses in Estonia during last ten years. For example, in 2006 and 2007, three clandestine laboratories were discovered by the police in Estonia. However, in 2008 the police did not dismantle any clandestine laboratories and the amount of tablets seized decreased 57 percent (45,223 tablets in 2007 to 19,465 tablets in 2008).<sup>26</sup> The data on drug deaths for 2010 indicate that dangerous unknown drugs are commonly available in the market. For 67 percent of death cases, the respective drug was not identified.<sup>27</sup>

Drug smuggling, avoiding custom tariffs while illegally trafficking legal goods and the excise taxes from the sales of alcohol and tobacco to final users continue to be important revenue sources for criminal groups. In the first quarter of 2011, the Estonian authorities confiscated over two million cigarettes, 578 liters of alcohol and 241,958 liters of fuel in total. For most of the trafficked goods, Estonia is just a transit country. For example, on March 5, about 370,000 cigarettes were confiscated near the Estonian-Russian border in Narva.<sup>28</sup> Russian and Caucasian criminal networks became interested in using this region as a gate to the EU market<sup>29</sup> and motivation has not diminished since Estonian independence. Job creating and taxpaying entrepreneurs, and, of course, tourists from Russia, are welcomed in Estonia. Many Estonians have close business relations with Russian businessmen. According to Reiljan and Stadnik, the Eastern investors' main motivation is often not the attractiveness of the Estonian real estate market but the need to move profits out of their home country.<sup>30</sup>

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<sup>26</sup> European Monitoring Centre for Drugs and Drug Addiction, "Country overview: Estonia" <http://www.emcdda.europa.eu/publications/country-overviews/ee#dro> (accessed September 14, 2011).

<sup>27</sup> Ibid.

<sup>28</sup> "The Estonian Tax and Customs Board has already captured over two million illegal cigarettes," Estonian Tax and Customs Board, Press release, April 12, 2011, <http://www.postimees.ee/418054/toll-on-tanavu-avastanud-juba-ule-kahe-miljoni-salasigareti/> (accessed September 14, 2011).

<sup>29</sup> Furkan Yildiz, "Compare the Nature and Scope of Organized Criminal Activities in North-America and in Europe," *Strategic Outlook*, vol. 1, no. 1 (July 2011), pp. 15–23, <http://www.strategicoutlook.org/pdf/Compare%20the%20Nature%20and%20Scope%20of%20Organized%20Criminal%20Activities%20in%20North.pdf> (accessed September 14, 2011).

<sup>30</sup> Piret Reiljan and Alyona Stadnik, "The Russian investors grab real estate in Estonia," *Business Day*, March 18, 2011, <http://www.ap3.ee/?PublicationId=31503ED6-39D4-4163-9D98->

In recent years, Russian interest in the Estonian real estate sector has been rising. Since the economic crisis began the Estonian realtors have shown a greater interest in new partners from Russia. It is difficult, however, for both the local entrepreneurs, looking for profitable business contacts from Russia, and the state, to control the background of potential investors and their transactions. According to Äripäev 2007, 6.3 million euros in cash was confiscated from a car close to the Estonian-Russian border.<sup>31</sup> The money was brought towards the border with the aim to finance an election campaign in Russia. During the economic crisis, the real estate company of a business partner of the same man helped Russian investors to acquire buildings and land in Estonia for over 40 million euros. The businessmen themselves deny any criminal relationships.<sup>32</sup>

Some believe that the foreign owners of Estonian real estate may endanger the country's economic stability and even national security. Estonia is a small country and, from an economic point of view, some risks may arise due to this. The relative losses for the society due to large-scale speculation, tax evasion or other (criminal) activities may be higher than in countries where the quantities of any resources or goods are higher. Investments can also be used to gain profit from entrepreneurial benefits provided by the EU states.

One case would be when people investing in Latvia acquire periodical residence permits of more easily. This advantage can be exploited, also by organized criminals. Many Russian "investors" have contributed only 70 euros in their Latvian enterprises.<sup>33</sup>

Different money laundering cases have been cleared up in relation to the Russian-speaking organized crime. The need for money laundering is a by-product of the benefits of criminal activity. For example, in January 2009, the

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74AA1E3959CE&code=4989/uud\_uudid\_x\_498902 (accessed September 14, 2011).

<sup>31</sup> "One of the Estonian biggest money laundering cases – millions euros of cash towards Russia," *Business Day*, May 11, 2007, <http://www.ap3.ee/Default.aspx?PublicationId=9a2e4ec6-6a95-41e1-bc62-3a33f9f2a11f> (accessed September 14, 2011).

<sup>32</sup> Piret Reiljan and Alyona Stadnik, "The Russian investors grab real estate in Estonia," *Business Day*, March 18, 2011, [http://www.ap3.ee/?PublicationId=31503ED6-39D4-4163-9D98-74AA1E3959CE&code=4989/uud\\_uudid\\_x\\_498902](http://www.ap3.ee/?PublicationId=31503ED6-39D4-4163-9D98-74AA1E3959CE&code=4989/uud_uudid_x_498902) (accessed September 14, 2011).

<sup>33</sup> Andres Reimer, "The Latvian Enterprise Registry holder: Little gain arises from the Russian investors," *The Estonian Daily*, May 6, 2011, <http://www.epl.ee/news/majandus/lati-registripidaja-venemaa-investoritest-touseb-vahe-kasu.d?id=51296686> (accessed September 14, 2011).

Bulgarian authorities identified a money laundering “affair” during which at least US\$1.4 billion of the “dirty Russian money” had been laundered through a series of financial transactions in Bulgaria and Estonia.<sup>34</sup>

In Estonia, the situation regarding corruption has been one of the best among the new members of the EU. In 2008, Estonia ranked 27th on Transparency International’s Corruption Perception Index (CPI), second only to Slovenia in Central and Eastern Europe, and positioned better than many other Western European countries.<sup>35</sup>

In 2011, a new problem has arisen regarding Russian citizens moving into Estonia by registering as members of the company boards. It is difficult to anticipate with any degree of certainty whether the person will indeed work as a board member or if the position is a front for criminal activity. In 2008, 485 residence permits were given out to blue-collar workers and 220 to members of boards; in 2010, the numbers were 76 and 612, respectively.<sup>36</sup> However, there is currently no evidence of large-scale criminal activity regarding those actions. Similarly to many other types of economic crime such as for instance bankruptcies, evidence can only be collected by working through every case in a longer period. However, first of all, a well-grounded suspicion is needed to start investigation, which makes it hard to trace potential criminal activity in an enormous network of private transactions.

Nowadays, organized crime in Estonia is seldom physically violent. The criminals are mainly operating for economic gain and have become cleverer in concealing their criminal actions behind legal operations. It has become harder to distinguish between criminal, semi legal and legal economic activities by the huge number of private companies operating in the Estonian market.

## **Concluding Remarks**

Russia remains an important trade partner for Estonia and the two countries have strong relations. Estonia’s current situation in the context of other European Union countries and the United States has made Estonia attractive for both

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<sup>34</sup> Ibid., p. 55.

<sup>35</sup> “The Baltic States and the North Eastern European criminal hub,” *Acams Today*, September–November 2009, [http://www.business-risk-research.com/wd\\_downloads/doc36\\_BalticStates\\_AT\\_2009.pdf](http://www.business-risk-research.com/wd_downloads/doc36_BalticStates_AT_2009.pdf) (accessed September 14, 2011).

<sup>36</sup> Rein Sikk, “The Russians throng to Estonia to run businesses,” *The Estonian Daily*, June 7, 2011, <http://www.epl.ee/artikkel/599113> (accessed September 14, 2011).

Russian investors and Russian criminals. Estonian economic integration into the EU continues to provide new “business” opportunities for criminally minded people from the East. After Estonia became independent, the share of its organized criminals has risen compared to Russian-dominated groups.

The structure of Russian organized crime in Estonia can be characterized in a manner somewhat similar to the state’s overall institutional development. The hierarchical and violent Soviet-like criminal groups have largely changed into networks of people in mutually profitable economic relationships disregarding the law. Organized crime has also become project-based and integrated with legal business activities. However, traditional areas of organized criminal operations like drug smuggling; alcohol, tobacco and fuel excise frauds; money laundering; etc., are still important. Several extensive criminal movements of goods and people have been traced at the Estonian-Russian border.

In the future, there will probably be somewhat different development paths for what can be called the “organized crime.” Firstly, the huge increase of the world’s IT sector may provide a totally new basis for illegal operations connected to hacking, etc. The continuing priority in the IT area will produce many opportunities for criminals. The threat may emanate from the developing world, including Russia, where the numbers of users will increase with time. The world’s growing dependence on electronic systems, which contain valuable personal or official data, makes the society vulnerable for attacks from a distance — the locations of the victim’s asset and the criminal do not have to match any more for a crime to be feasible and potentially profitable. This issue will mainly affect the transactions motivated by economic gain such as avoiding taxes by firms’ transactions, carrying out frauds by cyber means, issuing false bills, committing undeclared firm transactions, and other “white-collar” crime.

The second major threat is that organized crime and terrorism (both bloody and web based) may become even more interrelated and mutually profitable. Criminal groups operating with terrorists may easily take advantage of the development of the world’s IT sector and use its wide opportunities as tools for criminal actions.

Considering the Estonian role as a border between the EU and Russia, the Estonian fight against organized crime is of great importance for both the country itself and for Europe as a whole.

# Latvia

*Andrejs Vilks*

The economic and criminogenic processes in Latvia are significantly influenced by Russian organized criminal groups. Their impact is determined by various factors. The illegal activity of organized criminal groups linked with Russia can be largely separated into the following categories: laundering of money obtained through illegal dealings and economic crimes; illegal automobile business, i.e. car thefts to order, and their illegal handling in the Russian Federation (RF) or other Commonwealth of Independent States (CIS); and illegal drug circulation.

Latvia and other Baltic states comprise one of the organized crime hubs of Europe. This undesirable accolade is largely due to the activity of Russian transnational criminal structures and their impact on Latvia.

## **Common Preconditions for the Influence of Russian Organized Crime on the Criminogenic Situation in Latvia**

In the current era of global economic turmoil, the criminogenic processes in Latvia, as well as in other Baltic and Scandinavian countries, are highly complex and contradictory. Crime is becoming increasingly international and transnational in its nature. As a result of increased regional inequality, stratified economic situation, emergence and the development of socially favorable and prosperous countries, legal and illegal migration is increasing. Meanwhile, the legitimate and illegitimate flow of cargo, goods and energy resources is rising. Organized criminal groups operate at the transnational level, without observing any national territorial and economic boundaries. It is possible to observe the development of trans-border crimes which include the operation of criminal groups in the adjacent neighboring countries.

Latvia, due to its advantageous geographical location, is a hub of EU transit routes. The available infrastructure allows for the transportation of goods, including smuggling, using all means of transport (land, rail, sea

and air). In the context of cross-border crime, criminal processes in Latvia, undoubtedly, are the worst affected by organized criminal gangs in the Russian Federation. The risk of an increase in trans-border crime related to the organized groups, in particular, were not sufficiently modeled, analyzed and assessed when Latvia joined the EU. Consequently, the existing and potential impact of criminal groups organized in Russia and the Commonwealth of Independent States on the economic, political and criminal processes in Latvia is significant.

The recently appointed head of the Latvian State Police and former head of Riga Regional Police, Gen. Ints Kuzis, has admitted that "Latvian criminal stratum is still largely influenced by Russian criminality, and their respective bodies oversee what events take place in this sphere in Latvia."<sup>1</sup> He admits that during disagreements and conflicts that arise between criminal groups, Russian criminal leaders essentially act as judges whose verdict cannot be appealed. In the Russian Federation and the Commonwealth of Independent States they continue to honor and respect so-called "criminal authorities," who not only thoroughly oversee and analyze criminal and other processes, among others, in Latvia and elsewhere in Europe, but also settle disputes between Latvian and other European criminal groups. To some extent, it is possible to conclude that, from the side of the Russian Federation, there is felt not only the influence of criminal organizations and norms, but also the development of criminal ideology and logistics and its implementation in Latvia as well as other Baltic states and, to some degree, also in Europe.

How can such a trend be explained? Latvia has always had close economic, political ties with and been dependent on Russia, "Moscow's mighty hand." Communist ideology had deep and extensive roots in Latvia. At the same time the Soviet period of socio-economic policies contributed to the organized migration from other Soviet Republics. Socially and economically active people arrived and stayed to live in Latvia, but also people with no lasting social bonds with their homeland, family, or any sense of responsibility. Different cultural values and national mentalities gave rise not only to a certain social tensions and conflicts, but also catalyzed the efforts to

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<sup>1</sup> Ervīns Cīrulis, "Racketeering Returns as Different Type," La.lv, December 27, 2008, [http://la.lv/index.php?option=com\\_content&view=article&id=185310&catid=178:arhivs&Itemid=272](http://la.lv/index.php?option=com_content&view=article&id=185310&catid=178:arhivs&Itemid=272) (accessed September 17, 2011).

violate Latvian norms. In the socio-psychological aspect the tendency “to be superior” or to violate the national standards is still present. The existing contacts with the countries of ethnic origin and deviant values, in many cases, serve as a basis for the integration of certain groups in transnational criminal structures.

Thirdly, during the Soviet period, in Latvia, almost twice as many prisoners served their sentences associated with the deprivation of liberty, approximately a half of them were people from other republics; and a part of them, being freed from the imprisonment, decided to settle in the Latvian Republic. Former prisoners not only preserved the inclination for future criminal activity but also maintained close contacts with the criminal circles in Russia and other Commonwealth of Independent States countries.

Fourth, Latvia, as an EU country with its relatively high, understandable and acceptable Western standards of living, is attractive to citizens of the Russian Federation and the Commonwealth of Independent States, including criminal gangs. This is a determinant for citizens of Russia and the Commonwealth of Independent States, including those involved in criminal activity, to maintain constant contacts with Latvia, coming for recreation to Jūrmala. Due to the simplification and changes of the procedures for the relief for permanent residence permits in Latvian Immigration Law, they purchase real estate in Latvia, open businesses, and obtain the securities, including company shares.<sup>2</sup> In 2010, with the amendments to the above mentioned law coming into force, the number of applications for residence permits from Russia and the Commonwealth of Independent States amounted to nearly four hundred and fifty.<sup>3</sup> The acquisition of a permit makes it possible to move freely around the entire Schengen zone.

Fifth, the criminal structures in Latvia are still financially dependent on Russian criminal gangs that control the trafficking of drugs, weapons, and the smuggling of fuel into Latvia. The abundance of resources, energy and its refined derivatives in particular, allow the criminal bodies and companies in Latvia to receive substantial profits.

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<sup>2</sup> “Great Interest from the CIS Investors in Latvian Residence Permits,” *Diena*, November 10, 2010, <http://www.diena.lv/sabiedriba/politika/liela-interese-no-nvs-valstu-investoriem-par-uztusesanas-atlajam-latvija-756474> (accessed September 3, 2011).

<sup>3</sup> “Krievijas atpūtnieki Jūrmalā interesējas par uzturēšanās atļaujas saņemšanu Latvijā,” *Apollo*, July 18, 2011, <http://www.apollo.lv/portal/news/articles/244236> (accessed October 27, 2011).

## **Particular Trends and Forms of the Influence of Organized Crime on the Criminogenic Situation in Latvia**

### *The illegal movement of drugs*

Due to its advantageous geographical position, Latvia is often used as a transit country for narcotics, psychotropic substances and a base for trafficking to neighboring countries. Opium and heroin are delivered to the Scandinavian countries or the Central European region from Afghanistan via the northern corridor through Russia. Some of the drugs that come from Russia remain in Latvia. The reverse is also true; some of the cocaine and synthetic drugs from South America and European countries (Netherlands, Poland, Lithuania, etc.) are trafficked to Russia via Latvian transit routes. In May 2010, the largest cocaine shipment (200 kg) in the history of Latvia was seized at the Port of Riga. The final destination for the narcotics was likely to be Russian city of Novgorod Velikaya. This has been verified by a variety of information provided to foreign law enforcement agencies. The drug trafficking to the country is carried out through established supply channels by criminal groups. Latvia is a transit country for the transportation of illegal drugs and psychotropic substances by EU countries, particularly Lithuania, the Netherlands, Estonia, Germany and Poland. The routes used are often through land borders, mostly by road and through ports, using the ferry lines. In 2011, 44 drug smuggling cases on the Russian-Latvian border were discovered. Some 7.2 kg of drugs were seized, which is approximately four times more than in the first quarter of 2010.

### *Money laundering and crimes in the economic field*

Due to the close economic and financial links between Latvia and Russia, financial resources illegally obtained in Russia make their way into Latvia. The illegal resources find their way into Latvia's economic and financial environment, through Russia and outside its borders, and strengthen the criminal influence in Latvia. An example of the impact of Russian criminal structures in Latvia is related to the cooperation of the Latvian State Revenue Service (SRS), with other law enforcement agencies. Together they successfully thwarted a criminal group engaged in money laundering and tax evasion in November, 2010. A criminal group connected with Latvian and Russian criminal circles was found to have engaged in money laundering. It was later

linked to officials in Latvian credit institutions. In a period of less than one year, revenue reached approximately 10 million lats (14 million euros) and the tax due, and subsequently evaded, was at least 2.1 million lats (3 million euros). The SRS and Department of Financial Police, have obtained warrants to search the homes, offices and cars of 60 people involved in the scheme. They seized accounting records, code calculators, business stamps, computer equipment and other relevant evidence of the suspect's criminal activity. A special task force, "Omega," participated in the operation on the premise that group members could not obstruct the course of justice. The information held by the SRS showed that the group was involved in a large-scale international business scheme, which resulted in the illegal transportation and sale of goods manufactured in China, including forged merchandise from well-known brands, to the European Union. The group made use of accounts opened under the names of naturalized and legal persons in Russia, China and other countries to which Latvian dummy companies transferred substantial amounts of money, which then were shipped back to Latvia illegally. The information indicates that the funds were actually paid for goods manufactured in China, including some brand forgeries, which, in turn, were illegally marketed in the European Union.

Fearing that the SRS would expose their operation, group members tried to hide the traces of their crimes. The group's funds were suspended in, at least, 60 bank accounts of Latvian credit institutions.

In November 2010, a criminal action was brought against a Latvian citizen who was allegedly involved in a large money laundering scheme. He was given the initials AH to protect his identity.<sup>4</sup> In the process of different criminal activities, and in close cooperation with Russian oil refineries, AH turned over approximately 140 million lats (200 million euros) in a four-year period.

The investigation has established that AH developed a business scheme that laundered money from 2006 to 2010. The scheme enabled AH to evade paying at least one million lats (1.4 million euros). The scheme also included various Russian criminal organizations. The organizer was an owner of a number of companies registered in Latvia, which, in order to carry out economic activities, possessed the resources required for the trading of oil

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<sup>4</sup> "The Money Launderers Scale – a plane, a boat and 'Aston Martin'," *Delfi*, November 10, 2010 <http://www.delfi.lv/news/national/criminal/article.php?id=35086800> (accessed September 18, 2011).

products, transportation, trans-shipment and bunkering. These resources, at the prime cost, were leased to offshore companies, whose activities were directly or indirectly controlled by AH. In turn, the offshore companies offered the resources necessary for the handling of petroleum products to Latvian and foreign companies at the normal market price. The people involved in the scheme withdrew the profit in cash from bank accounts in Switzerland, Liechtenstein and Russia. The resources of 35 million lats may have been turned over yearly. AH, avoiding the investigation, stayed in Russia. During the criminal investigation, it was found that the criminal group provided services to a variety of legitimate companies operating in Latvia and foreign countries. The criminal group's main circle of "clients" consisted of people in metalworking, construction, woodworking, real estate, food industry, security, car sales, among others. Their clients were also law firms who provided advice on legal issues to other firms controlled by the group at high cost, thereby reducing the amount of taxes payable from the overall budget. This allowed the group to obtain the right to require VAT deductions from the SRS or a reduction of the amount of tax paid into the budget. In turn, a criminal group, which, according to the current information, consisted of more than ten people, repeatedly laundered the money through accounts registered in foreign banks changing the ownership of funds. The funds were transferred to bank accounts in Lithuania, Estonia, Poland, China and Singapore. The relationships of individual group members with Russian money launderers were used allowing funds to travel to accounts in Russia, Armenia, Moldova, Cyprus, and Montenegro among other countries.

Currently, one in four Latvian financial and credit institutions, i.e. nine banks, are already owned by Russian citizens. The Russian Federation funds have been deposited there, which constitutes 27 percent of the total financial resources. As one of the last, Latvijas Biznesa Banka (LBB) was purchased by one of the richest and most influential Russian politicians, Andrei Molchanov, in the summer of 2011. His personal worth is estimated at US\$3.2 billion. In 2008 the New York Times ranked him among the world's ten most influential politicians, along with former Italian Prime Minister Silvio Berlusconi and New York Mayor Michael Bloomberg. At present, GE Money Bank is being purchased by Russian financial corporation "Otkritije," which is owned by multimillionaire Boris Mints. One of the largest Latvian banks,

“Latvijas Krājbanka,” is owned by one of Russia’s most prominent financiers Vladimir Antonov.<sup>5</sup> Another prominent Latvian company, “Latvijas Balzāms,” is possessed by Yuri Sheftler who is wanted by law enforcement agencies of the Russian Federation. Overall, it is necessary to conclude that currently there is an increasing trend in inflow of Russian capital, including of unknown origin, into Latvia. Experts note that, during the crisis, Russian businessmen, as well as authorities with criminal records, purchased businesses or shares, residential and commercial buildings, agricultural land, forests at negligible cost, and created new economic structures in Latvia.

*Transportation and realization of stolen goods* in the Russian Federation and the Commonwealth of Independent States take place at the order of Russian criminal organizations and with their most direct support and participation. In this respect, car thefts are the most frequent type of crimes. Approximately 30 percent of stolen cars from Latvia and other EU countries are brought across the border to the Russian Federation. From Latvia, the cars stolen to order arrive in Russia, where the demand in the illegal market is much broader. The cars stolen, in Germany, for example, arrive in Russia via Latvia. The information collected by the Latvian law enforcement agencies shows that Latvia is mainly used as a transit country for vehicles stolen in other countries (predominantly Western) to be transferred to the Russian Federation, Belarus and other countries of the Commonwealth of Independent States.

Traffic flow on border crossings to the Russian Federation is heavy so that it is impossible to thoroughly check every car. Hence, the possibility that stolen vehicles are brought across the border to Russia is high. Car plates from other vehicles, forged registration documents, stolen vehicle registration certificate forms, forged technical passports, forged stamps and letters of attorney are used for transportation of stolen cars across the

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<sup>5</sup> Vladimir Antonov was arrested on November 24 in the U.K. with a business partner, Raimondas Baranauskas, at the request of Lithuanian prosecutors wanting to charge them with fraud and embezzlement. Investigators were trying to figure out how a man whose holding company claimed to have US\$7 billion of assets as recently as nine months ago ended up with an insolvent bank in Lithuania, Bankas Snoras AB, and an international arrest warrant. Snoras, which was majority owned by Antonov, was seized by the government in Vilnius on Nov. 16 on concern it was performing illegal operations. The Baltic country’s central bank said regulators are now looking for 3.4 billion litai (US\$1.3 billion) that is unaccounted for. See Tariq Panja, Milda Seputyte and Aaron Eglitis, “Tale of Missing \$1.6 Billion, a Bankrupt Baltic Bank and Soccer,” Bloomberg, December 15, 2011, <http://www.bloomberg.com/news/2011-12-15/tale-of-missing-1-6-billion-a-bankrupt-baltic-bank-and-soccer.html> (accessed January 15, 2012)

state border. Virtually all road border points may be used for the delivery of stolen cars across the state border; there have also been recorded cases of stolen cars carried over the “green border.” Lorries or freight containers are also employed for transfer of stolen vehicles across the state border. Similarly, there were cases where stolen cars were brought from Latvia to Russia hidden in railway wagons. Stolen cars from Latvia to Russia and Belarus are transferred by the citizens of third countries, including Lithuanian, Estonian German and Russian-speaking citizens, as well as people of Russian origin with U.S., German, Swedish and Greek passports. After the elimination of computer-based border controls at internal EU borders, the control of Latvian borders has become burdensome. The computerized control of people and vehicles made it possible to gather information and to plan interventions of operational services.

Dozens of customs and border guards have been detained and have already been accused of bribery at Grebneva and Terehova border posts in recent years. Specialists admit that rotation of customs and border guards would be required so they do not coalesce with the local criminal environment. However, the solution to this problem is linked to economic factors — the country is unable to provide accommodation for customs officers and border guards and their families at the border points. Latvian customs service has negotiated possible assistance in finding a solution to the situation with Finnish customs officers; however, it is only possible in the advisory level, as well as providing technical support.

### *Smuggling of excise goods*

Latvia’s eastern border plays a strategic role in the smuggling of goods through to European countries, which are primarily determined by national economic disparities (especially with Russia and Belarus) and the price difference for the respective groups of goods. A considerable cooperation of Latvian organized crime representatives, with transnational organized crime structures is observed in these areas. Cigarettes, alcohol and fuel are the most common excise duty goods illegally moved, mainly over the Latvian-Russian border. The Criminal Police of Latvia acknowledges that the links of the Latvian population with Russia and other former Soviet republics contribute to the development of heroin smuggling.

In recent years, cigarette smuggling has increased from eight percent to 38 percent. This occurred due to poorly conceived tobacco excise tax policies, at the same time ignoring the growing problem of cigarette smuggling in the country without investing adequate resources to combat it. In 2010, in Latvia, the number of seized smuggled cigarettes amounted to 60.8 million cigarettes, approximately 8.5 million more than in 2009.<sup>6</sup> In the first quarter of 2011 there were recorded 37 percent more cigarettes smuggling cases than in the respective period of 2010.

**Table 1. Volume of Cigarette Smuggling, 2007–2010**

Year	Volume (%)
2007	8
2008	15
2009	24
2010	38

Source: BAT, TNS Latvia: <http://stopkontrabanda.lv/kontrabanda-latvija.html>

The volume of cigarettes which were seized for their illegal transportation across the border has significantly increased. In the first quarter of 2011, 7,299,850 cigarettes were seized, which is four times more than in the first quarter of the previous year, which totaled 1,740,220 cigarettes. The main destinations for organizers of smuggling are the richest EU countries, where cigarettes can be sold at a higher price. About a quarter of the smuggled cigarettes remain in Latvian.

There is also a substantial amount of illegal alcohol in Latvia, which mainly comes from Russia through organized criminal gangs. While in other European Union countries the volume of smuggled alcohol is 5–10 percent, in Latvia it is 35 percent of the total alcohol market.<sup>7</sup>

According to the data from the Latvian Fuel Traders Association, approximately 30 percent of fuel consumed in Latvia is imported contraband. One of the latest developments is the so-called petroleum products, designed for lubrication of mechanical devices and used to operate vehicles. These products

<sup>6</sup> "The amount of smuggled cigarettes has increased fourfold," *Baltic News Network*, April 26, 2011, [www.bnn.lv/cetrkarsojies-pari-robezai-nelegali-parvesto-cigaresupajoms-2975](http://www.bnn.lv/cetrkarsojies-pari-robezai-nelegali-parvesto-cigaresupajoms-2975) (accessed September 14, 2011).

<sup>7</sup> "National Characteristics of Baltic Smuggling," *Nacionalais Zinu Porals*, July 3, 2011, <http://www.kasjauns.lv/lv/zinas/51949/baltijas-valstu-kontrabandas-nacionalas-ipatnibas> (accessed August 28, 2011).

are not subject to excise duty which, of course, is advantageous for merchants and consumers. Last year the problem escalated in Poland and the three Baltic countries, and recently it has become an acute problem in Germany and France, where the production of such products is rapidly expanding, thus decreasing the volumes in the legal fuel market. The European Commission has paid attention to the issue, and it has planned to shortly introduce fuel-use controls. Latvian customs has identified 25 transnational organized groups operating in the field of smuggling. According to the head of the State Customs Service, Talis Kravalis, Latvia can be considered as a transit country for smuggled goods because of the small consumption market and rather extended trafficking networks. In 2011, two of the 25 organized crime groups were liquidated. Kravalis admits that these groups have a major influence particularly in the eastern frontier zone, including the possible risk of corruption of the customs officials. In the first five months of 2011 the activity of 29 criminal groups was disrupted.<sup>8</sup>

**Table 2. Forms of Disrupted Criminal Groups' Activities in first five months of 2011**

Activity Type	Cases
Illegal movement of narcotic and psychotropic substances	13
Human trafficking, including for sexual exploitation, procuring	9
Illegal circulation of fire-arms	2
Illegal circulation of excise duty goods	4
Illegal circulation of petroleum products	3
Illegal circulation of cigarettes	1
Theft	1

Strict controls on the movement of goods are of significant strategic importance for strengthening both international and domestic security. Controls should extend across all goods, particularly radioactive material stored in Latvia and other goods of strategic importance. Particular security measures can only be taken at an international level. There is a risk that Latvia could be used both as an intermediary in trade transactions with goods of strategic importance, and as the territory for distribution or production of goods of

<sup>8</sup> Mudīte Luksa, "Illegal Circulation of Excise Goods: Customs, Problems," LV Portals, July 27, 2011, <http://lv.lv/?menu=doc&id=233677> (accessed September 4, 2011).

strategic importance. In Latvia, illegal activities with ionizing radiation and radioactive sources have been recorded.

The Europol annual report of 2010 on the state of organized crime notes that the Baltic states constitute one of the organized criminal structure hubs in Europe.<sup>9</sup> The illegal transit of goods and drug business, as forms of organized crime, are particularly characteristic of the Baltic states, including Latvia.

## **Summary**

The influence of Russian criminal organized groups on criminogenic, social and economic processes in Latvia is significant. This impact is realized through the formation of common transnational structures and bribing law enforcement officials and personnel of other institutions. There is a characteristic anti-social influence on the people living in border areas due to their high unemployment rate, recruiting them to criminal groups, jointly planning and preparing criminal activities that are related to the smuggling of excise duty goods, the transit of drugs, handling of stolen goods (including cars) across the state border. In recent years, it is typical to deploy the proceeds of criminal financial resources in neighboring countries and masking the illegal origin of such resources. In the circumstances of global financial crisis, an increase will be seen of the influence of organized criminal groups from Russia, where they are highly developed with extensive international connections and unlimited resources, in Latvia, the Baltic and Scandinavian countries and Europe as a whole. This adverse criminogenic trend is furthered by the decrease in potential of Latvian law enforcement agencies and resources to effectively reverse the influence of Russian organized crime. Under current conditions, it is essential to limit cross-border cooperation trends of organized crime groups and attempt to make an impact on economic processes, reduce corruption, and promote public awareness of the need to engage in the liquidation of corruption.

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<sup>9</sup> Europol, "EU Organised Crime Threat Assessment OCTA 2011," [https://www.europol.europa.eu/sites/default/files/publications/octa\\_2011.pdf](https://www.europol.europa.eu/sites/default/files/publications/octa_2011.pdf) (accessed October 27, 2011).

# Lithuania

*Aurelijus Gutauskas*

Russian organized crime extends into a number of countries of the former Soviet Union. Georgia, Latvia, Lithuania, Belarus, Tajikistan, Estonia, Armenia, Azerbaijan, Kazakhstan, and Ukraine, among others, have a problem with organized crime. Much of the problem originates in Russia, from there it has spread into Eastern Europe and then into Western Europe.

The EU's criminal intelligence agency, Europol, has once again identified the Baltic states as one of the five organized crime hubs of the EU — with particularly flourishing activities in moving narcotics and contraband cigarettes in and out of Russia. The *EU Organised Crime Threat Assessment* (OCTA 2011) published by Europol defined Lithuania, Latvia, Estonia, and the Russian Federation exclave of Kaliningrad, as the northeast criminal hub. OCTA mentions especially the prevalence of crime groups in Lithuania, which are said to be active in the UK, Ireland, Germany, Sweden, Denmark, Finland, France, Belgium, the Netherlands and Spain.<sup>1</sup>

Organized crime began to emerge in Lithuania in the late Soviet period. After the restoration of independence it grew in strength, in part because of weak state institutions. The justice system was in disarray and there was a total absence of effective legislation. Organized crime developed gradually from racketeering and dealing in contraband of Soviet products towards more sophisticated patterns of criminality. This metamorphosis was related to significant changes that Lithuanian society underwent throughout the founding and transitional growth periods of the republic.<sup>2</sup>

The main Lithuanian organized criminal groups are encouraged to expand their criminal activity in other countries by opportunities for

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<sup>1</sup> Europol, "EU Organised Crime Threat Assessment 2011," [https://www.europol.europa.eu/sites/default/files/publications/octa\\_2011.pdf](https://www.europol.europa.eu/sites/default/files/publications/octa_2011.pdf) (accessed November 22, 2011).

<sup>2</sup> Aurelijus Gutauskas et al., "Changing Typology of Organized Crime in a Post-Socialist Lithuania (the late 1980s-early 2000s)," *Global Crime*, Vol. 6, No. 2 (May 2004), pp. 201-21.

greater gains. Drug dealing, gun trafficking, trafficking in human beings, circulation of stolen cars, smuggling, organization of illegal migration are not practically possible if criminal structures involved come from the same country.

The geographic position on the west-east maritime route influences not only the political situation, but also the tendency toward delinquency.

For 50 years it has been forbidden for the Baltic states to live according to their national mentality and aspirations, having been oppressed by Russia. This dependence was further enforced by the "Iron Curtain." On each side of the "curtain," people have been living according to their different laws, but on both sides there have been large enough groups that had no respect for the interests of others. Lithuania was under Russian rule for almost two centuries from 1795, with a short period of independence from 1918 to 1940. The long existence inside the Russian empire made the delinquency structure similar to the one in Russia, this is the same for the organized crime structure.

Organized crime in Lithuania has flourished after the emergence of the "thieves in law." They governed organized crime for many years in the Soviet Union and independent Lithuania as well. "Thieves in law" as well as "trade mafias" experienced a tremendous growth during the period of Gorbachev's perestroika. These economic and political reforms were somewhat superficial but nevertheless provided a possibility for individuals to acquire property easily.

This "release of the bolts" gave rise to a marked growth of "traditional" crimes such as theft. This, in turn, stimulated the spread of "non-traditional" crime, such as property extortion in Lithuania.

Moreover, the collapse of the KGB and withdrawal of Soviet army troops from Lithuania also gave rise to organized crime. For instance, there was a great deal of money laundering throughout the privatization process of the 1990s.

The analysis of organized criminal activities in recent years suggests that organized criminal groups have become much more professional than before. Nowadays, their activities are based on good mutual relations, both domestically and internationally and rely on highly organized financial, technical, and informational support.

## Drug trafficking

### *Heroin*

Heroin is usually brought to Lithuania from Russia. Some heroin remains in Lithuania and a part of it is shipped to the Kaliningrad region and Latvia.<sup>3</sup> The moderate increase in the circulation of cocaine can be explained by the favorable economic situation during the previous years; the increased use of cocaine in the EU; a growing number of Lithuanian citizens who have become cocaine couriers; and by the smuggling of cocaine historically organized from South America via Lithuania to the Eastern Europe and Russia by certain organized groups or by persons maintaining contacts with those groups.

Due to its location, Lithuania serves as a transit country from East to West, as well as from West to East. Smuggling of drugs to the East is determined by the different consumer market and the prices of narcotic and psychotropic substances. In 2008, six cases of detention were recorded in Russia and 10 citizens of the Republic of Lithuania were detained. Heroin from Russia (via Belarus) or via Russia from Western Asia goes to Lithuania, whereas a certain amount of heroin goes to Western Europe. Due to the fact that Lithuania shares the border with the Kaliningrad region, heroin is brought from Russia to the Kaliningrad region and Lithuania. In 2008, as Lithuanian Criminal Police Bureau was cooperating with Russian colleagues, four trucks were seized on the Russian-Latvian border. Some 2,160 liters of BMK (benzylmethylketone), transported in the fuel tanks specially arranged for this purpose, were withdrawn from illicit circulation and five citizens of the Republic of Lithuania and a citizen of the Russian Federation were detained. On the eve of 2009 Lithuanian Criminal Police Bureau cooperating with Russian colleagues seized a truck with 563 liters of BMK on the Belorussian-Lithuanian border. Among the Lithuanian citizens detained in the Russian Federation for smuggling of amphetamine, were residents of Vilnius district, aged between 29 and 58 years old.<sup>4</sup>

Russian, Lithuanian, Estonian and Polish organized crime groups are involved in BMK trafficking.

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<sup>3</sup> Information provided by Organized Crime Investigation Board 3, Lithuanian Criminal Police Bureau.

<sup>4</sup> Ibid.

### *Cocaine*

In 2009, several Lithuanian citizens were detained in Russia for the illegal carriage of cocaine. A total of 0.8 kg was withdrawn from circulation.<sup>5</sup> Increasingly, a large quantity of cocaine will be brought to Lithuania to mislead law enforcement agencies as to the exact destination country of the legal cargo (in which drugs are hidden). These smuggled goods are then transferred to Europe or Russia.

### *Cannabis*

In 2009, while conducting a joint international operation with officers of the Ministry of the Interior of the Russian Federation, two cars that had arrived from Lithuania were seized. Some 27 kg of hashish and 0.8 kg of cocaine were found in a hidden compartment.

In 2010, a citizen of the Republic of Lithuania and a citizen of the Russian Federation were detained in Russia for smuggling drugs, 1.85 kg of hashish was found in a gas tank of their car.<sup>6</sup>

In 2009, several citizens of the Republic of Lithuania were detained for smuggling cannabis in Latvia, Poland, Russia and Germany. The citizens of the Republic of Lithuania were detained for illegal shipment of hashish in Sweden, Germany and Russia.

The role of the citizens of the Republic of Lithuania in international illicit circulation of drugs and their precursors is in organizing or taking part in hashish smuggling from Southern Europe to Eastern Europe or Russia.

### *Amphetamine-type stimulants (ATS)*

Lithuanian groups play an important role in the trafficking of synthetic drugs to the Russian Federation, Scandinavia and the Baltic states. In the northeast hub and the Nordic countries, Lithuanian groups have strengthened their role in the supply of amphetamine, methamphetamine and ecstasy-type stimulants.

Illicit production of methamphetamine and amphetamine has been discovered in Lithuania. These illegal drugs are meant not only for the local

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<sup>5</sup> Information provided by Drug Control Office, Lithuanian Criminal Police Bureau.

<sup>6</sup> Information provided by Organized Crime Investigation Board 3, Lithuanian Criminal Police Bureau.

market but are also transported to Scandinavia (through Latvia and Estonia) and Russia. Some of the ecstasy remains in Lithuania and the rest is transported to Russia.

Lithuanian organized crime groups are brokers for numerous illicit commodities in Northern and Western Europe and the former Soviet Union. While concentrated in the northeast hub, their influence extends to other Baltic countries, Nordic countries and Spain for the sourcing of cocaine, and the Russian Federation and Ukraine for the sourcing of precursors for synthetic drug production. Lithuanian groups have recently become an essential part of the supply chain to the northwest hub, sourcing Russian Federation BMK for amphetamine production. As is also the case with Albanian-speaking organized crime groups, the wealth of Lithuanian criminal groups increases their recruitment, retention, infiltration and investment capacities.

### **Tobacco and alcohol smuggling**

In comparison with previous years a considerable increase in the flow and amount of illegally shipped tobacco products has been observed. The amount of cigarettes smuggled from third countries (most often Russia and Belarus) and the amount of cigarettes seized on the territory of Lithuania has also considerably increased. Just as before, Lithuania remains a transit country, 85 percent of the cigarettes seized in Lithuania are intended for the "black market" of the European countries (the UK, Germany, Poland). The most popular cigarettes smuggled via the territory of Lithuania have remained the "Jin Ling" cigarettes. Having legally acquired tobacco products in third countries (most often in Russia) and having illegally sold them on the black market of the EU member countries a profit of 1,000 percent is gained.

Contacts with Russian, Polish, German, Latvian, Belarusian, Ukrainian, Israeli and other foreign organized crime groups are maintained via telephone or arranging personal meetings. Groups also come into contact via the Internet, e-mail or Internet telephony.<sup>7</sup>

Having distributed tasks and roles, the members of an organized crime group usually conduct all the stages of the criminal activity. Some buy cigarettes from foreign suppliers or legally operating factories (in the Kalin-

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<sup>7</sup> Ibid.

ingrad region or in Ukraine), other bring cigarettes to Lithuania, the rest arrange orders and sell cigarettes directly to individuals, who later handle cigarettes in Lithuania or resell them.

The smuggled cigarettes are most often shipped to Lithuania in hidden compartments or by hiding them under various goods in trucks and cars. From the Kaliningrad region cigarettes are also shipped across the state border bypassing the border checkpoints and transporting them across the river in waterborne vessels. According to the data available, the Russian factories sell the cases pre-wrapped in a water-resistant coat.

Strong corruptive criminal links between state officers and persons conducting smuggling are established in small towns and regions near the borders with Belarus and Russia, whereas, in Lithuanian towns, which are situated further from the Lithuanian border, such corruptive crimes are committed more rarely.

The Lithuanian “green” border is crossed by the citizens of neighboring Belarus and Russia travelling on their own. Persons also try to enter Lithuania through border control points using false or forged travel documents or fraudulently received visas. In 2009 the number of foreigners who addressed diplomatic agencies of Lithuania abroad on their applications for Schengen visas significantly increased.

In comparison with 2008 figures, the number of state border-cross breaches recorded in 2009 increased by 15 percent. The highest number of state border breaching was recorded at the border with the Republic of Belarus (202 cases) while at the border with the Russian Federation, in the Kaliningrad region, 155 cases occurred. In 2009, 150 citizens of third countries, who were trying to unlawfully cross the state border, were detained. Most offenders were detained at the border with the Republic of Belarus.

### **Trafficking in human beings and labor exploitation**

An analysis of the citizenship of the offenders shows that in 2009 the citizens of Russia and Belarus, who had been “leading” for many years, had been joined by Georgian nationals. Migrants from Georgia tried to enter the Republic of Poland and apply for asylum. Since they were not allowed to enter Poland, they started looking for other countries through which they would be able to enter the Schengen area. It precipitated an increase of cases in which Georgian nationals illegally crossed the “green” state border from

Belarus to Lithuania and also the increase of the number of requests for asylum in Lithuania. Since the asylum was refused in the majority of cases, the active migration of the citizens of Georgia through Lithuania was lightly suppressed.

Payments for the transport of foreigners through state borders are usually made in two parts. A part of the money is transferred from the Russian Federation using the system of Western Union, and the rest is paid upon the delivery of the migrants to the place agreed.

### **Smuggling of stolen luxury cars**

The information received during 2009–2010 shows that Lithuanian organized criminal groups commit theft of luxury cars and trucks in other countries and ship them to Eastern European countries and to Central Asian countries (Tajikistan, Uzbekistan and Kyrgyzstan). The most frequently stolen cars are BMW, Lexus, Porsche, Toyota luxury all-terrain vehicles, which are shipped by transit via Lithuania outside the EU.

Most often luxury vehicles are stolen in Germany. Thefts are also committed in Latvia, Estonia and Sweden. Trucks are stolen in Germany and Denmark. Stolen vehicles are transported to Russia via Poland, Lithuania and Belarus. From Lithuania and Latvia vehicles are transported by railway to Asian countries (Tajikistan, Kazakhstan, Uzbekistan and Kyrgyzstan). Some of the stolen vehicles are brought to Belarus and Russia bypassing Lithuania, i.e. directly from Poland or via Latvia. It has not exactly been established in which direction stolen trucks are transported; however, the information possessed indicates that the destination country is Russia.<sup>8</sup>

### **Money laundering**

A considerable number of accounts of bogus foreign companies have been opened in the credit establishments of Lithuania which may be called transit accounts — international payment transfers made into these accounts from abroad are transferred to another foreign commercial bank. The scheme of this kind of money movement in which money travels through many countries and into many accounts may be used in various schemes of tax evasion

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<sup>8</sup> Information provided by Lithuanian Criminal Police Bureau.

and in the legalization of the proceeds of crime. In this case it is difficult to identify sources of assets and final receivers.

Money laundering has a geographic principle that is closely related to the principle of neighborhood (close in distance, no language boundaries) and a possibility to cross borders of EU countries freely. Since the border of Lithuania is part of the external border of the EU, illegal assets are smuggled to third countries (the Russian Federation, Belarus), and not declared them to the customs services of the Republic of Lithuania. Cash smuggling is one of the most frequent elements in money laundering schemes meant to conceal the illicit source and origin of money as well as in its state of origin.

With the opening of internal EU borders, the export of the proceeds of crime from the Republic of Lithuania and their export have become extremely simple and after further financial transactions the state of origin of the illicit assets becomes particularly difficult to trace. The geography of the financial transactions of organized criminal groups is also influenced by the location of Lithuania, which is especially attractive for drug transit.

The location of Lithuania is favorable for the international activity of organized criminal groups. Lithuania is the crossroads of illicit commodity carriage routes both in internal and external EU directions. The locality of organized criminal groups preconditioned their specialization in the control of separate external EU borderland. Some of them make use of their influence at the Belorussian border others do it at the Russian border. Closer international relations in neighboring countries are also characteristic of local organized criminal groups at the internal EU borderlands with Latvia and Poland. In Russia in 2009 and 2010 (first half of the year) Lithuanian organized criminal groups used possibilities related to the acquisition of excise goods for smuggling to the West and precursors for smuggling to the Netherlands, handling of smuggled cocaine, hashish, cannabis, amphetamine, methamphetamine and ecstasy (MDMA), handling of smuggled heroin in the Kaliningrad region, handling of stolen vehicles and running of LBSs. Some members of Lithuanian organized criminal groups have settled in Russia.<sup>9</sup>

### **Other kinds of criminal activities**

The global networks of criminals, terrorists and corrupt government officials

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<sup>9</sup> Ibid.

and their complex methods of smuggling goods could easily be transferred to the smuggling of nuclear materials on a massive scale. While global organized crime has become increasingly more involved in the transfer of arms, encouraged in part by conflicts in the Balkans and the former Soviet Union which proved to be profitable for the Russian organized criminal groups and the Italian mafia, the smuggling of nuclear materials seems to be isolated to select incidents, and mostly to amateurs. Russia no longer has the nuclear materials protection that it had during the Cold War when materials were controlled by a tight, centralized system under a politically powerful government. In the past year, the FBI has seized major shipments of nuclear materials in Eastern Europe, including large seizures of cesium in Lithuania and uranium in the Czech Republic. As global organized crime groups become more powerful and as nuclear materials become more vulnerable (through poor management, underpaid and desperate workers in nuclear facilities, and government corruption) the threat becomes more serious.

### **Corruption**

Since the end of the Cold War, Russia and parts of the former Soviet Union have become fertile ground for organized crime groups to expand their illicit activities. The end of the police states, the relaxation of social controls, and the opening of borders in these formerly “closed” societies have allowed both local and foreign criminal organizations unprecedented freedom to operate. Criminal networks comprised of traditional organized crime groups, highly skilled professionals, and corrupt officials have moved quickly to fill the vacuum created in climates of radical political, economic, and social change. The intertwining of organized crime and official corruption in Russia is undermining development of democratic and free market institutions.

Criminal groups have been aggressive in cultivating business relationships with politicians, government officials, and business magnates – a major factor in their becoming a pervasive and powerful force in Russia, the Baltic, and other countries. Corrupt officials in Russia have also provided a front for criminal companies with export licenses, customs exemptions, and government contracts.

The progressing integration of Russia and the other former republics of the Soviet Union with much of the rest of the world since the end of

the Cold War has opened new avenues for international criminal activity. Russian criminal groups are using the region's fledgling free market and banking sectors to move large amounts of capital across borders, to launder money, and to commit a variety of financial frauds. The removal of Moscow's formerly tight control over travel between different regions of the former Soviet Union and open borders with Europe in particular has greatly facilitated the smuggling of drugs, arms, illegal immigrants — including the trafficking of women and children — stolen vehicles, alcohol, cigarettes, and other illicit contraband.

The relative dependence of Estonia, Latvia, and Lithuania on Russian energy supplies and the importance of Baltic ports for Russian transit trade provide significant opportunities for Russian and other organized crime groups. Although all three countries have reoriented their trade more toward the West, Russia remains a major trading partner for Latvia and Lithuania. The Baltic countries are the major commercial outlet between Russia and the West; according to Interfax Foreign Trade Report figures, the major Baltic ports handle nearly 13 million tons of Russian cargo annually. Russian and other organized crime groups are taking advantage of the high volume of trade through these ports to smuggle contraband both ways, including drugs transiting Russia to Western markets and automobiles stolen in Europe for Russian buyers. The trade in strategic commodities — particularly fuel and energy resources — is a particularly lucrative target for criminal groups.

Operating within the sizable ethnic Russian population in the Baltic countries, Russian crime groups have taken advantage of the privatization process to buy business enterprises that became part of their criminal empires. They have established numerous front companies, particularly in the import/export sector for the purposes of facilitating illicit trade and laundering money.



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# Russian Organized Crime: Recent Trends in the Baltic Sea Region

Edited by Walter Kegö &  
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A new criminal landscape is emerging in Europe. A key factor behind the dramatically increasing crime levels is Russian organized crime. While these groups are often comprised of Russians, they are not based solely on ethnicity, often members are also from former Soviet republics. According to Europol, these groups are among the most dangerous criminal groups operating in Europe today. They are involved in every type of illegal activity and excel in exploiting new opportunities in the economic and financial sectors. They make exorbitant amounts of money from illegal activities such as money laundering, human and drug trafficking, smuggling and extortion. Their activities have grown and spread to other countries to such an extent that they pose a serious problem affecting all EU member states. This report documents recent trends.

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