



THE UNTOUCHABLES: RUSSIAN ‘DIRTY MONEY’ IN EUROPE

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In Europe, Russian organized crime rackets are quickly gathering a name for themselves as “untouchables.” As their wealth increases and EU banking regulation falters, it is a name that is ever more apt.

Money laundering in the European Union by Russian organized crime remains a problem for member states. Governments and banks continue to allow the accounts and transactions of criminals to go unregulated. However, increased regulation hurts the profits of EU banks, which can potentially profit from the illegal transactions. Hence, governments are often reluctant to increase regulation in times of crisis. Despite member states’ reluctance to enforce regulations it is imperative they do so as these illicit channels bring with them an influx of crime and corruption into the EU.

Russian organized crime in the EU

The following three examples highlight Russian organized crime’s infiltration into EU banks and the use of elaborate schemes by such criminals to hide their profits. In Germany in 2008, a Russian minister laundered money through front companies and German banks, money which he embezzled after privatizing a state-owned company. Yet, while the bank’s employees were prosecuted, the Russian minister avoided trial. In another case, the criminals used Russian tax officers to defraud the state of 5.4 billion rubles (approx. €145 million), which was then laundered out of Russia and into Europe through compliant banks. The Russian tax fraud scheme of 2008, as it became known, reflected the partnership between Russian organized crime and Russian officials. In a third example, Russian criminal money was laundered through a shell bank to a major Austrian bank. There is evidence that this money was then sent to offshore companies and a major Northern

European energy project. These examples are just a few of many that highlight the threat of Russian criminals and the ease of laundering illegal profits through EU banks.

Both Brussels and the European Banking Federation clearly state that banks must have an active campaign to carry out due diligence on all suspicious customers. This should include evaluations of their financial history, the origin and owner of the money, and whether that person is politically exposed. Failure of a bank to comply with these laws requires government intervention in the form of a fine as well as to make sure appropriate measures are taken. In addition, banks can be prosecuted as compliant in money laundering if they have accepted money from convicted criminals. While these laws exist, they are not always upheld or enforced, either by the banks or the member states.

The problem lies in that banks want to make a profit, especially in times of economic crisis. A June 2011 study conducted by the British Financial Services Authority (FSA) found that a large percentage of UK banks were not compliant with money laundering laws, and failed to take adequate steps to stop illicit assets from entering their banks. To these banks, profits outweighed the risks of non-compliance. The risks that banks deem insufficient are, largely, two-fold: fines imposed by the government, and reputational risk amongst potential customers for being associated with criminal groups. This sentiment is not exclusive to the UK, and is believed to be reflected throughout the EU.



Government, risk and regulation

The risk depends on the governments' regulation of banks and the magnitude of the punishment. If a government doesn't properly monitor its banks, the short-term gain for a bank overrides the risk. Similarly, if there is no substantial punishment for a lack of compliance with Anti-Money Laundering (AML) laws, the bank is unlikely to be compliant. If governments are active in regulation and revealing breaches in AML law, the financial burden of fines and the reputational risk can be so disastrous to banks that they will favor compliance with the law. Fortunately, government action has increased in Western Europe.

In Germany and Spain, major operations to crackdown on Russian money laundering and crime occurred in 2005, 2006 and 2008. But not all countries have followed suit, and pressure is not consistent, as the FSA report highlights. In Eastern Europe, government regulation is far worse. In Latvia, for example, Europol has acknowledged that organized crime is integrated into the government, and officials are bribed to look the other way. While banks may benefit in the short run, particularly in Eastern European countries, allowance of criminal activity could feasibly deter foreign investment in the long run.

To counter Russian money laundering in member states three steps must be taken: first, EU banks must do their part

to increase compliance with anti-money laundering protocols and not engage in relationships with banks suspected of laundering illicit assets. Second, if a government cannot compel banks to follow EU banking laws, the burden falls on Brussels to create incentives for compliance. Third, if Russia does not cooperate with investigations into money laundering crimes, the EU has the responsibility to put economic and legal pressure on Russia.

Russian organized crime continues to be a problem in Europe, and will grow, further validating the emerging "untouchables" label, if their financial channels are not dismantled. It is up to the EU to stop the rot and compel banks and governments to acknowledge that the long-term risk is too high to be involved with the Russian criminal world.

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