



Russian organised crime The EU perspective

Since the fall of the Soviet Union, Russian organised crime groups have grown increasingly present in the European Union. The extent of their fraud and money laundering activities distinguishes them from other non-EU groups.

With the disintegration of the communist system in Russia, organised crime has deeply penetrated the state structure. It has attempted, and to some extent succeeded, in taking control of entire sectors of the economy, such as the banking sector.

This influence, the size of Russia and its former role as military superpower define the character of Russian groups and explain their strong position in transnational crime. Although involved in every form of crime, Russians have acquired particular expertise in high-tech crime, such as trade in arms or cyber crime. Money laundering is central to their activities and has become a 'service' offered to criminal syndicates from other parts of the world. Several large-scale money laundering schemes have been reported in the media.

There are no EU measures that would address Russian organised crime as such. However, in 2008, Europol devoted a specific threat assessment to these groups. Tackling organised crime has also been one of the main issues raised in the context of EU cooperation with the Russian Federation.



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Context

Since the collapse of the Soviet Union, the EU–Russia relationship has been shaped by their economic interdependence. Whereas the EU is Russia's main trading partner, Russia remains the EU's biggest supplier of natural gas and a major supplier of crude oil and oil products. Furthermore, Russian investment in Europe – though substantially less than the EU's investment in Russia – reached €2 billion in 2008. Since 1991 an estimated €11.6 billion has been invested in Cyprus alone. Over time, cooperation has extended to other areas. Following the 2007 agreements on visa facilitation and readmission, Russian citizens have found it easier to enter the EU Member States (MS).

The dark side of the developing relationship has been the increasing presence in the EU of organised crime groups from the Russian Federation (hereafter 'Russian' groups). This is not surprising as, in the past 30 years, they have not only deeply penetrated state structures and economic life in Russia, but also established their position amongst the world's most widespread criminal groups.

These organisations are part of a wider phenomenon which is Russian-speaking organised crime. The language is commonly spoken in the former Soviet republics, which facilitates contacts between crime syndicates from various countries. Moreover, many



Russian crime syndicates have members of diverse backgrounds and ethnicities.

According to Europol, Russian groups active in the EU play a particularly important role in **trafficking of women** and trafficking in **drugs and chemical precursors** used for manufacturing drugs.

Even more crucial is their impact on national economies through **fraud, money laundering and investment of the proceeds of crime**.¹ It is the scope of this financial crime that distinguishes Russians, more than anything else, from other non-EU criminal groups operating in the EU.

How it was born...

A criminal transformation

Suppressed by Stalin, the Russian criminal world gradually recovered in the Brezhnev era. It turned restricted access to goods to its advantage, penetrating the state apparatus and corrupting officials.

However its influence at that time appears minor when compared to what happened when the communist system disintegrated. The criminal groups adapted perfectly to the new reality of Gorbachev's *perestroika* and Yeltsin's economic reforms. Between 1992 and 2002 the number of criminal groups in Russia tripled to 12 000.²

The transition to free market economy – beneficial only to a privileged few and not accompanied by the establishment of the rule of law – limited the role of the state, making it unable to protect newly-born

private enterprises. This is where the criminal world stepped in, offering protection ('*krysha*' – roof) to businesses in return for shares in their profits. During this period boundaries were blurred between criminals, private business, corrupted officials and members of law enforcement and security services.

Ethnic criminal groups

Even before the collapse of the Soviet Union ethnic communities played an important role in the Russian criminal world. The majority of so-called '*vory v zakone*' (thieves-in-law, the criminal elite) were not Slavic. This led Soviet authorities to associate the world 'mafia' with ethnic groups, while denying the existence of ethnically Russian organised crime.

Chechen criminal syndicates stand out as particularly influential. They have asserted their position during turf wars which ravaged Moscow in the 1990s. They now exert a large degree of control over trade in heroin from Afghanistan. Profits from illegal activities have allegedly been used in Chechnya to finance the separatist movement. Khozh-Ahmed Noukhayev, to whom the creation of the 'Chechen mafia' is ascribed, was later a prominent figure of Chechen politics.

Other ethnic groups involved in the drug trade include Georgians, Tajiks, Armenians, Azeris, and Tatars. These groups do not always cooperate with ethnic Russian groups and some of them have tried to dominate domestic drug markets.

Taking over the economy

The next step was organised crime's attempts to control entire branches of the economy, including aluminium production and the banking sector. Given very low capital requirements for the establishment of a bank, it was very easy to open one. According to the FBI, in the 1990s almost half the banks were controlled by organised crime. The Russian Ministry of Internal Affairs put the figure at 85%.³

Capital flight

Wary of economic instability, and/or unwilling to share their rapidly-gained profits with the state or anyone else,

entrepreneurs began transferring considerable funds abroad. This massive capital flight used a range of practices, including selling below market prices to subsidiary companies abroad and invoicing for goods never actually delivered. It is impossible to present the scope of this phenomenon in figures. Various estimates exist, the conservative ones ranging from 10 to 20 billion dollars a year since 1992. The proportion of proceeds of crime in these transfers is unknown. In the 1990s, Russian authorities estimated it at about one-third.⁴



...and what it has become

The Russian mafia?

Despite the death of many prominent criminal figures in gang wars, numerous organised crime syndicates have established strong positions in Russia. The Solntsevo Brotherhood from Moscow, the Tambov gang of Saint Petersburg and Uralmash from Yekaterinburg are among the most influential organisations. By infiltrating the political process at a very high level they are able to influence policy formulation and avoid prosecution.⁵

In sometimes exaggerated and emotional accounts of their activities, Western media use such terms as 'Russian' or 'Red' 'mafia'. These groups are not however strict hierarchical structures based on permanent membership. Nor do they possess characteristics seen in traditional definitions of mafia, such as family ties or the use of induction rituals. They operate instead as flexible network structures involving a wide range of actors, including politicians and businessmen.⁶

Transnational crime

Some of these groups have become involved in transnational crime. The size of the Russian Federation makes it possible for them to cooperate directly with Far Eastern, Central Asian and European syndicates. It also explains the unmatched diversity of their activities, which involve all forms of crime. Some criminal activities are however particularly associated with Russia. These are related to Russia's role as a former military and technology superpower.

Drug trade

Whereas initially Russian organised crime focused on extracting profits from the legal economy, with time the drug trade has come to the foreground.⁷

The geographical position of Russia between Afghanistan – which produces over 90% of the world's opium – and Western Europe, which remains the most lucrative market for

heroin, makes Russian organised crime an important part of the Northern route for heroin transit.

Russians have also established direct contact with Colombian and Mexican drug cartels and assist them in smuggling cocaine to Eastern Europe. Moreover, Russia is a growing market for drug consumption, including Colombian cocaine, and synthetic drugs (amphetamine and ecstasy) which originate mainly from Germany, Poland and the Netherlands.

Trade in arms

The spontaneous privatisation of parts of Russia's conventional military arsenal to high-ranking officers led to their trading in nuclear materials, large military equipment and classified military technology. Moreover, many military experts became unemployed and thus willing to sell their knowledge to organised crime.

Russian groups are known to have assisted Columbians in manufacturing a submarine for drug trafficking purposes. They have also at least attempted to sell such equipment to Colombian cartels. Moreover, they have consistently supplied arms to parties to African and Balkan conflicts.

Cybercrime

Alongside China and Brazil, Russia is the world's major host of cybercrime and its citizens commit the highest number of transnational frauds on the internet. Poverty, a high level of computer literacy, and a technological edge which is a legacy of the former USSR have created the ground on which cybercrime has blossomed. Organised crime groups are involved in this increasingly profitable and barely controllable activity. The cyber-attacks against Georgia during the 2008 Russian military campaign were reportedly conducted in close connection with Russian organised crime groups.⁸

Money laundering

Money laundering is central to Russian organised crime activities and is associated with all forms of crime described above. It is



perpetrated through the banking and real estate sectors, gambling and casinos, as well as direct investment in restaurants, bars and nightclubs.

On account of their involvement in the legitimate economy in Russia, and taking advantage of the under-regulated banking sector, Russian groups started providing money laundering services to foreign organised crime syndicates. There are known cases of them laundering the money of Colombian drug cartels on a 'fee for services' basis.

With respect to the flight of capital from Russia, some commentators argue that it entails a risk of Western banking being 'contaminated' by the standards used in Russia. In the notorious 'BONY' case Russian money launderers managed to infiltrate the Bank of New York. Illegal transfers were made through the accounts of Benex Worldwide Ltd. There are some unconfirmed reports that certain transfers to offshore locations involved IMF funds destined for providing stability in Russia.⁹ Benex was linked to YBM Magnex International, another company later prosecuted for financial crime. The founding shareholder of YBM Magnex was Semion Mogilevich, allegedly a major, if not the most important, figure in Russian organised crime.¹⁰

Other forms of crime

Other forms of crime carried out by Russian organised crime groups include extortion, murder for hire, smuggling counterfeit goods and trafficking in precious metals, gems, timber and endangered species.

Presence in the EU

Centres of activity

The presence of Russian organised crime has been reported in numerous MS. However, they tend to be concentrated in countries located on major trafficking routes and host to well-established Russian ethnic communities. The south and north-east of Europe are particularly concerned.

Bulgarian and Romanian criminal groups have long-established connections to the Russian criminal world dating back to the Soviet era. Budapest has also become a major host of Russian organised crime, especially since they were forced to relocate after the 1995 police raid on the 'U Holubů' restaurant in Prague. Semion Mogilevich is known to have pursued various criminal activities from Budapest before heading back to Russia.¹¹ Vienna and Berlin are also significantly affected.

The three Baltic States (Estonia, Latvia and Lithuania) constitute – in Europol's terms – the so-called north-east criminal hub. Located on increasingly important northern trafficking routes, in the vicinity of St Petersburg (dubbed 'the Russian crime capital') and Kaliningrad, these states suffer from a disproportionate presence of Russian organised crime. Local crime groups – many of them Russian-speaking – often serve as intermediaries between Russians and other criminal groups and have criminals of Russian origin in their ranks. Foreign investment in the Baltic States has been hampered by extortion by Russian groups, although it is much less common now than ten years ago.¹²

Extortion activities have also been reported in Cyprus, where the criminal world has been dominated by Russian, Greek-Russian and Greek-Georgian groups.

'Dirty' money

A significant amount of Russian capital has found a home in the EU, and numerous cases of suspected financial crime have been brought to public attention by national media. In 2010 11 MS were on the US Department of State's [list](#) of countries of primary concern as regards money laundering.¹³

EU luxury destinations

Favourable taxation in **Cyprus** and the island's double taxation treaty with Russia make it the primary destination for Russian business. Their investment is concentrated in



the tourism and construction sectors. In its 2005 [report](#) Moneyval (the Council of Europe's anti-money laundering group) criticised Cyprus for its lack of effort to change the alarming money laundering situation.

There have been some politically very sensitive cases of alleged embezzlement and tax evasion involving businessmen operating in Cyprus, such as Vladislav Kartashov and Valery Mikhailovich Korotkov.¹⁴

The **French Riviera** (Côte d'Azur) also attracts Russian criminals who launder money through the Riviera's property sector. The French Parliament has [shed some light](#) on this phenomenon: Russian groups have invested extensively in real estate, often paying in cash, and have influenced local politicians and judges.

The Baltic States

According to Europol, Russian groups use banks in the Nordic and Baltic States to launder the proceeds of crime perpetrated in the former Soviet Union, arguably aiming at a low-profile entry into EU financial systems. The current problems with money laundering in the Baltic countries are linked to the rapid privatisation of the banking sector in the 1990s.

Out of the three countries, Latvia has repeatedly been singled out as the major money laundering hub. The country's balance of payment reveals considerable money flows from Russia and disproportionate foreign investment in countries with preferential tax and bank secrecy laws including Cyprus and Switzerland.¹⁵

Estonia and Lithuania have better corruption ratings¹⁶ and the scale of money laundering appears to be smaller. However, the Estonian daily *Äripäev* claims to have uncovered possibly the largest money-laundering scheme in Eastern Europe involving Estonian currency exchange bureaux and funds originating from Russia.¹⁷

Bulgaria

According to the Sofia daily newspaper *24Chasa* a Sofia-based company was used to launder money of the St Petersburg Tambov gang.¹⁸

EU policy

Addressing organised crime threat

The 2010 Internal Security Strategy

The new [strategy](#) – the cornerstone of the EU current approach towards organised crime – does not specifically refer to Russian groups. However, in its [communication](#) on the strategy, the Commission stressed the need to revise by 2013 the EU's anti-money laundering legislation, the essential instrument in the EU's fight against their activities.

Threat assessments

Threats emanating from particular organised crime groups are analysed in specific threat assessments drafted by Europol. The first such text was the [Russian Organised Crime Threat Assessment](#) (ROCTA) of 2008. Following the ROCTA, the Council adopted [conclusions](#) highlighting the danger of Russian groups gaining increased influence in the political, economic and judicial spheres through fraud and money laundering.

Cooperation with the Russian Federation

[The 1994 Partnership and Co-operation Agreement](#) (PCA) has established a general framework for the EU-Russia relationship. It includes general provisions concerning money laundering and drug trafficking. A new agreement has been under negotiation since 2008.

The framework for judicial and law enforcement cooperation was defined in the 2000 [Action Plan for a Joint Strategy on Russia for Combating Organised Crime](#) and the 2003 [Cooperation Agreement between the Russian Federation and Europol](#).¹⁹

Russia has also signed a [Memorandum of understanding](#) with the European Monitoring Centre for Drugs and Drug



Addiction. Furthermore, a Russia-EU agreement on chemical precursors used for manufacturing drugs is currently being negotiated.

The European Commission, the EU-15 and Russia are members of the [Financial Action Task Force](#) (FATF), an inter-governmental body established by the G7 to combat money laundering and terrorist financing.

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Endnotes

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- ¹⁷ [Huge sums may have been laundered through Estonian forex bureau, bank](#) / antimoneylaundering.us, March 2011.
- ¹⁸ [Russian Mafia Laundered €1 billion through Bulgarian Firm - Report](#) / novinite.com. January 2009; [A tale of Russian mafia, a Bulgarian businesswoman and 1bn Bulgarian leva](#) / The Sunday Herald, February 2009.
- ¹⁹ Negotiations on a new operational cooperation agreement between Russia and Europol were launched in October 2010, with the aim of strengthening their cooperation and bringing it onto a more practical level.