



RUSSIAN ORGANIZED CRIME AND ITS IMPACT ON FOREIGN ECONOMIES

Alexander Sukharevko

Russian organized crime represents a new level of professional crime, reflected in its high level of criminal sophistication and the well-developed network of corruption links. Its activities and influence are exerted on a considerable portion of the economy and have spilled over across national borders.

According to Russia's National Security Strategy (2009), criminalization of the economy is one of the long-term threats to internal security. In 2011, Russia's shadow economy was probably worth 19 trillion rubles (\$632 billion), or 35 percent of gross domestic product. While rising in absolute terms, the figure has fallen from 77 percent of GDP in 1994 and tumbled to as low as 28 percent in 2009-2010. This size is 3.5 times larger than corresponding G-7 economies like the U.S., France, and Canada (GFI, 2013).

The World Economic Forum reports on global competitiveness show that the level of harm of business caused by Russian organized crime is one of the highest, not only in Europe, but also in the whole world. In 2012, Russia ranks 114th out of 144 countries on this indicator (WEF, 2012). The lack of laws, lax regulation, corruption, and extreme forms of violence have enabled criminal organizations to make substantial inroads into lucrative economic sectors, including energy, metallurgy, construction, banking and retail. The Ministry of Internal Affairs (2012) estimated that some 1,000 different companies are controlled by organized crime.

Organized crimes' success can be attributed in part to the fact that many members of the elite, who are influential in economics and politics, are directly involved in illicit activities. Corrupt officials provide criminal front companies with licenses and quotas, customs exemptions, budgetary funds, municipal and state property. Further, law enforcement officials often help eliminate their competitors, and provide criminal bosses with protection from the law.

A significant portion of criminal proceeds are transferred and laundered through offshore banks and shell companies. According to Global Financial Integrity, Russia is the fifth

largest exporter of illicit capital over the past decade, behind China, Mexico, Malaysia and Saudi Arabia, respectively (GFI, 2012). The Russian economy lost at least \$211.5 billion in illicit financial outflows from 1994 to 2011 (or about US\$11.8 billion per annum). These outflows represent the proceeds of crime, corruption, and tax evasion, and have serious negative consequences for the national economy (GFI, 2013). Some of this money has returned to Russia at favorable exchange rates, where it has been reinvested in other illicit schemes or used to purchase real estate, companies, and banks. As a result of this cycle, many criminal bosses made up a significant proportion of the new wealthy class.

Transnational aspects

Geopolitical, economic, social, and technological changes over the last two decades have enabled criminal organizations to become increasingly active worldwide. According to the Russian Bureau of Interpol, there are 500 criminals (mostly bosses) active abroad (ITAR-TASS, 2011). Their main activities are frauds, smuggling goods/aliens, human trafficking and money laundering.

Since the late 1990s the bosses of powerful criminal organizations are actively "colonizing" foreign countries and bringing money in their wake. Clear illustrations of this trend are the following criminal cases.

In 2008, Spanish authorities launched Operation Troika, arresting twelve Russians on charges of criminal conspiracy, money laundering, forgery and tax evasion. The major operation ended in the arrest of the leaders of the "Tambov" and the "Malyshev" criminal organizations – Gennady Petrov



and Alexander Malyshev, as well as the “thief in law” Vitaly Izgilov. According to Spanish investigators, they failed to pay several million euros in taxes. Further, the source of their incomes was unclear, sparking suspicions of money laundering. In the raid, the Spanish authorities seized EUR 200,000 in cash, 23 cars, a yacht, artwork, and froze their bank accounts, which held millions of euros (Shleinov, 2008).

In 2010, the National Court sentenced the “thief in law” Zakhary Kalashov (“Shakro-Molodoy”) to 7.5 years in prison and a fine of EUR 20 million for organizing a criminal group and money laundering. In addition, five other CIS citizens were convicted. According to the Court, the criminal proceeds amounted to EUR 7.5 million passing through third countries via real estate companies controlled by members of his gang. In April 2011, the Supreme Court increased his sentence to nine years and his fine to EUR 22.5 million (El Pais, 2011).

Spain is also seeking the extradition from Russia of the other two “thieves in law” – Tariel Oniani (“Taro”) and Vladimir Tyurin (“Tyurik”) – who are wanted for similar crimes (Vershov, 2012).

In 2013, the Spanish Civil Guard arrested four people, including Andrei Petrov, suspected of tax fraud, forgery and laundering over EUR 56 million (\$75 million) from the “Solntsevskaya” and “Solomonskaya” criminal organizations through various businesses in Catalonia, including restaurants, stores, gas stations and real estate. This network was linked to Semion Mogilevich, one of the FBI’s ten most wanted fugitives, and had companies in the Seychelles, Cyprus, Andorra, Slovakia and the British Virgin Islands. Petrov also allegedly had corrupt relations with the local authorities who received regular bribes of tens of thousands of euros (El Pais, 2013).

Spain is not alone in its efforts. In 2009, the Stuttgart Court (Germany) sentenced for money laundering a leader of the “Izmailovo” criminal organization, Alexander Afanas’ev, and two of his accomplices to 5.5, 4.5 and 2.5 years in prison. According to the Court, they created a fictitious company in order to secure bank accounts and purchase 50 plots of land. In June 2010, Afanas’ev was deported to Russia (Vershov, 2010).

While European investigators have pursued cases against Russian criminals, a lack of coordination between European and Russian law enforcements has inhibited success. The Russian Bureau of Interpol has received a significant amount of information about the possible involvement of Russian na-

tionals in money laundering through personal and corporate bank accounts and purchasing real estate and stocks. However, in most cases, the investigative bodies do not exercise any operational or procedural verification of this information. As a result, sources of income involved in cross-border wire transfers are rarely located, and confiscation fails. Hence, Russian criminals succeed largely due to lack of coordination between law enforcement and regulatory agencies (MIA regional departments and Rosfinmonitoring offices).

In 2011, U.S. President Barack Obama identified Russian/Eurasian criminal organization, the Brothers Circle, as significant transnational criminal organization (TCO) in the Annex to Executive Order 13581 (Blocking Property of TCO) on July 24. Over the past year, the U.S. Treasury Department has designated five Russian “thieves in law”, associated with the Brothers’ Circle. This action freezes any assets the designees may have within the jurisdiction of the United States and prohibits any transactions with them by American citizens. These efforts protect the U.S. financial system from money laundering, and exposes and disrupts the actions of individuals who are supporting or acting for or on behalf of the Brothers’ Circle (Treasury, 2012).

Conclusion

Combating organized crime is a complex, difficult, and arduous task. Major criminal bosses are often buffered from any connections with specific criminal acts. They use corruption and violence both to protect their interests and themselves. In general, the characteristics of organized crime that make it difficult to combat domestically are compounded as it moves abroad. As the criminals move across national borders, the opportunities for criminal involvement multiply, and the entities and mechanisms that ensure enforcement and control become less centralized.

Given the high degree of public danger due to organized crime, it seems necessary to improve the effectiveness of financial sector supervision regarding anti-money laundering compliance and international legal framework for cooperation (including the timing of execution of requests, extradition, and confiscation of criminal proceeds). There is also a need to intensify the fight against corrupt senior officials, who often support criminal organizations.



References

1. Condenado a nueve años el mafioso ruso Kalashov, El País, April 6, 2011.
2. Operación contra la mafia rusa en el Ayuntamiento de Lloret de Mar. El País, Jan. 25, 2013
3. GFI (2012): Illicit Financial Flows from Developing Countries: 2001-2010. Wash. D.C.
4. GFI (2013): Russia: Illicit Financial Flows and the Role of the Underground Economy. Wash. D.C.
5. ITAR-TASS (2011): Interview with Aleksey Abramov, the deputy head of the National Bureau of Interpol. Jan. 24.
6. Ministry of Internal Affairs. (2012). Annual report of the Department of Economic Security and Counter-ing Corruption for 2011. Moscow.
7. Shleinov Roman, Hermanos de Tambov, Novaya Gazeta, July 14, 2008.
8. Treasury Designates Brothers' Circle Members. Wash. D.C. 2012.
9. Vershov Yuri, Germania vernula Rossii lidera "izmaylovskikh". Rosbalt. June 24, 2010.
10. Vershov Yuri, Vor v zakone nuzhen Rodine. Rosbalt. Feb. 29, 2012.
11. WEF. (2012). The global competitiveness report (2012-2013). Geneva.

Alexander Sukhareenko is Director of the New Challenges and Threats Study Center, Vladivostok, Russia

The opinions expressed in this Policy Brief are those of the author and do not necessarily reflect the views of the Institute for Security and Development Policy or its sponsors.

© The Institute for Security and Development Policy, 2013. This Policy Brief can be freely reproduced provided that ISDP is informed.

ABOUT ISDP

The Institute for Security and Development Policy is a Stockholm-based independent and non-profit research and policy institute. The Institute is dedicated to expanding understanding of international affairs, particularly the interrelationship between the issue areas of conflict, security and development. The Institute's primary areas of geographic focus are Asia and Europe's neighborhood.

WEBSITE: WWW.ISDP.EU