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AND WESTERN SECURITY INTERESTS

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Testimony submitted to the Subcommittee on Terrorism, Narcotics
and International Operations, Senate Committee on Foreign
Relations.

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INTRODUCTION

The demise of the Soviet empire, the dismantling of centrally-planned economies and the opening of borders to the West have kindled new incentives and opportunities for organized crime in the newly independent states of the former Soviet Union (FSU). More than 4,000 criminal formations comprising an estimated 100,000 members now operate in Russia alone, engaging in such activities as extortion, drug dealing, bank fraud, arms trafficking, export of contraband oil and metals, and smuggling of radioactive materials and components. An estimated 150 to 200 of these formations have international ties -- maintaining criminal contacts and controlling franchises in other post-Soviet states or in the West. Like world-class criminal organizations everywhere, Russian syndicates possess considerable muscle. They are well-equipped with sophisticated weapons and advanced communications and surveillance equipment; furthermore, the implosion of Russia's military-industrial complex has provided the criminal underworld with access to an unusual array of talent -- including former KGB and police officials, ex-military specialists and university-trained chemists, managers and economists.

The influence of organized crime is pervasive in the post-Communist world. Criminal formations control significant economic assets (including some 40,000 commercial and state enterprises in Russia alone) and maintain accomplices and informants at all levels of the bureaucracy and the military-industrial complex. Representatives of criminal syndicates sit in FSU parliamentary institutions and are thus in a position to block or water down significant anti-crime legislation. In Boris Yeltsin's administration, even cabinet members and top military commanders have been implicated in smuggling ventures and other shady commercial dealings. Yeltsin himself calls organized crime "a direct threat to Russia's strategic interests and national security," yet the Russian government seems powerless to combat this menace.

THREATS

The explosive growth of organized crime in the FSU represents a significant potential threat to U.S. and Western security interests. Several aspects of this threat can be identified: First, FSU crime syndicates contribute to the international proliferation of advanced weaponry and of dangerous radioactive substances. Second, such syndicates are playing an increasing role in the global traffic in illicit drugs. Third, Russian crime organizations are "exporting" their operations and networks and collaborating with foreign criminal organizations -- developments that pose serious challenges to Western law enforcement. Fourth, -- on a more general level -- organized crime threatens Western interests in the emergence of a legitimate economic and political order in post-Communist Eurasia. These threats will be discussed in order below.
Proliferation

The collapse of Soviet control and the relative impotence of post-Communist state structures are associated with a remarkable expansion of underground arms trafficking both in the FSU and in the West. Military units with commercial interests routinely collaborate with organized criminal formations in selling sophisticated weapons from former Soviet arsenals and stockpiles. The range of hardware brokered by FSU crime syndicates includes such items as assault rifles, rocket-propelled grenades, missile systems, helicopters, fighter aircraft, tanks and possibly submarines. Russian military sources reported 6,430 cases of thefts of weapons from military depots in 1993, compared to 3,923 cases in 1992, a 64 percent increase. Yet covert military sales by corrupt top brass and their criminal cohorts probably far exceed these numbers. The bulk of the weapons traffic circulates in war-torn parts of Russia's "near-abroad" (for example, in Tadjikistan and Nagorno-Karabakh); the rest probably gravitates to regional conflicts elsewhere or equips the arsenal of malevolent free agents such as the Islamic Jihad and the Sicilian Cosa Nostra.

A particularly ominous manifestation of criminal military entrepreneurship in the FSU has been the smuggling of radioactive materials to the West. Instances of nuclear smuggling apparently have increased dramatically in recent years. In Germany, for example, the number of attempted or successful nuclear deals recorded by German authorities increased from 4 in 1990, to 41 in 1991, to 158 in 1992 to 200 or more in 1993. Actual smuggling cases seldom involve weapons-grade uranium or plutonium (that is, material that could be used in a nuclear bomb); yet some nuclear materials appearing in Western markets -- for example, cesium and strontium -- pose clear environmental hazards and conceivably might be adapted to terrorist missions. Furthermore, assorted middlemen have displayed samples of weapons-grade material to potential buyers, at least in Russia -- an indication that FSU nuclear establishments are not immune to penetration by organized crime interests.

Indeed, conditions for nuclear smuggling and profiteering appear relatively favorable at present. Nuclear stocks in the CIS countries are enormous -- composing possibly 500 to 600 tons of highly enriched uranium and 100 to 200 tons of plutonium. The theft of a few kilograms of this material (especially if accomplished over a long time period) might not be detected easily. In Russia (and probably elsewhere) controls over these stocks are fragmented among a number of different and competing government agencies. Storage costs are high -- an estimated $1.00 to $2.00 per gram of plutonium per year -- which creates an incentive to sell rather than to stockpile the material. In addition, maintenance and security conditions are rapidly deteriorating in some FSU nuclear arsenals.

At the same time, high profits can be realized by selling to the nuclear black market. A kilogram of uranium enriched to 30 percent U-235 can sell in European markets for $1 million, approximately 20 times the European price of a kilogram of cocaine and 50 times the purchase price of the uranium in the Urals. Moreover, hard times in the nuclear industry are heightening the risk of proliferation. Laboratories,
reactors, production lines and even entire plants are being shut down. Nuclear scientists, weapons engineers and skilled technicians are being discharged or are suffering pay cuts. Recently, scientists at Arzamas-16, a secret nuclear city near the Russian city of Nizhny-Novgorod went on strike because their salaries had not been paid. Given these uncertainties, employees of the nuclear industrial complex might well be tempted to peddle atomic bomb components, or simply to seek employment outside the FSU -- for example, in the secret nuclear programs of North Korea, Pakistan or Iran. While the nuclear proliferation scenarios outlined here have not yet materialized, current leakages provide ample reason for concern about the security both of uranium and plutonium stockpiles and of the estimated 30,000 nuclear warheads remaining on the territory of the former Soviet Union.

**Narcotics**

The former Soviet states represent an important new frontier in the illicit global narcotics trade. The growth of narcotics businesses -- like the growth of organized crime itself -- is bolstered by chaotic economic conditions prevailing in much of Eurasia, as well as by weak law enforcement, a permissive legal framework (Russia, for example, has decriminalized drug use), unprotected frontiers and porous financial systems. FSU states consume most of the drugs that they produce but FSU products such as morphine, hashish, opiates and amphetamines are appearing increasingly frequently in Western markets. Also, FSU and foreign crime syndicates are transshipping huge quantities of illicit drugs across former Soviet territory. Heroin and hashish cargoes from the Golden Crescent countries travel through the FSU en route to Western Europe and (less frequently) North America. Also, rather amazingly, Russia now also serves as a transit country for Colombian cocaine. Significantly, almost 1.1 tons of cocaine, shipped from Colombia in cans of meat and potatoes, were impounded by Russia customs authorities in Vyborg, near the Russo-Finnish border in February 1993.

Moreover, the former Soviet Union comprises a large base of raw materials necessary for the production of illicit drugs. Most export-quality drug crops grow in the Central Asian states of the FSU. Kazakhastan, for example, contains an estimated 138,000 hectares of wild-growing cannabis -- approximately 5 times the recorded cannabis cultivation in Mexico and Colombia combined. Marijuana from Kazakhastan and elsewhere in Central Asia tests for a high tetrahydrocannabinol (THC) content and frequently processed into hashish, a commonly-used drug in the FSU. In addition, more than 5,000 hectares of opium poppies are cultivated illegally in Central Asia, mostly in Uzbekistan, Tadjikistan and Turkmenistan. Opium cultivation -- like drug crop cultivation elsewhere -- is highly profitable -- one hectare of poppy yields at least 20 times as much income per unit of land as cotton, Central Asia’s most important cash crop.

The opium trade is becoming a major growth industry in the region. Expanding cultivation is fueled by a variety of factors: deteriorating economic prospects, the conflict in Tadjikistan, and rising demand for drugs in the European-Slavic states and in the West. Organized crime has invested heavily in the opium business, financing much
of the new cultivation by hiring peasants and even entire villages to plant and protect the poppy crops. Ominously, evidence has surfaced of heroin production in crude laboratories operated by Pamir tribal leaders in politically contested areas of Tadjikistan. Also, interregional criminal networks have emerged to transport opiates and other Central Asian drugs to Western markets. Central Asians themselves typically are not the prime movers in these networks. Rather, outsiders -- often Caucasian groups such as Azerbaidjanis, Chechens and Georgians -- travel to Central Asia, purchase drugs from local dealers, and distribute them in Moscow, St. Petersburg, Prague, Helsinki and other cities.

A different type of threat is reflected in the rapidly increasing production of illicit synthetic drugs. In Russia, the Baltic countries and other post-Soviet states, the collapse of the old industrial order has eliminated employment opportunities for thousands of highly-trained chemists and medical specialists or has reduced their earnings to poverty levels. Many such specialists now are working in clandestine laboratories, synthesizing LSD, methadone, ephedrine-based amphetamines and new age compounds as trimethylfentanil, a synthetic opiate said to be hundreds of times stronger than heroin. (The "clandestine laboratories" may, in fact, be facilities in universities, research institutions and factories converted part-time or full-time to illegal production). Much of the synthetics production is for export. For example, a state pharmaceutical factory, "Latbiofarm," in 1992-1993 dedicated an entire production line to the manufacture of amphetamine tablets; some 11 million tablets totalling 4.5 tons were shipped to Germany in 1992-1993 before the operation was discovered by the authorities.

The drug trade in the FSU is still at a fairly early stage of development. Perhaps the USSR's long isolation prevented the "normalization" of criminal ties as well as legal economic linkages between East and West. Such linkages, though, are now developing rapidly. Certainly, the former Soviet states have the capacity to flood the world with cannabis products, cheap (or highly dangerous) synthetic drugs, and -- if current trends continue -- with heroin of Central Asian manufacture. And entrepreneurial FSU crime syndicates -- especially those with overseas affiliates -- are in a position to deliver virtually any kind of narcotics to interested consumers in Western Europe and the United States.

Internationalization

Russian crime syndicates are moving westward -- exporting capital, establishing outposts in Western countries and collaborating in new ways with foreign criminal syndicates. Russian police sources estimate that $7 billion in organized crime funds were transferred from the Soviet Union to Germany between 1988 and 1992, and that $25 billion was moved from the FSU states to Western banks in 1993. Such enormous capital outflows have facilitated the reproduction of FSU criminal networks and ventures abroad. Mafia groups comprising ethnic Russians, Chechens, Azerbaidjanis, Georgians and other nationalities from the former Soviet Union have entrenched themselves in Helsinki, Prague, Warsaw, Berlin, Frankfurt and other European cities. Such mafias have established roots in Tel Aviv and Haifa and are active in such U.S. cities as
Philadelphia, New York and Los Angeles. The export of "Russian" crime is producing predictable increases in homicides, racketeering, prostitution, drug abuse and official corruption in the affected countries. In Germany, some 30 "Russian" organized crime groups now operate, some of them comprising more than 300 members. German police officials estimate that almost one-third of all crimes in Germany are committed by emigrants from the former Soviet Union. Russia's Western group of forces in Germany reportedly conducts a thriving two-way smuggling business, importing narcotics substances and contraband military goods from the East and exporting Western computers, computer parts and stolen cars to Russian markets.

Also unsettling are reports of growing collaboration between Russian criminal groups (including groups established overseas) and various Western criminal formations. The Vyborg shipment mentioned above was a joint venture of Colombian, Israeli and Russian narcotics traffickers, according to Russian press accounts. (Colombian dealers had apparently "tested the waters" in Vyborg by sending smaller shipments of cocaine through the port on several previous occasions.) There are persistent rumors of planning meetings -- "crime summits" -- in Warsaw, Zurich and Prague between Russian and Italian organized crime figures. The Prague meeting (which occurred in mid- or late 1992) apparently discussed various money laundering schemes as well as possible exchanges of FSU weaponry and nuclear merchandise for Western narcotics, especially cocaine. Some foreign criminal capital is flowing into Russia, although probably still on a minor scale. For example, Italian crime syndicates reportedly own a stake in a major tourist hotel in Moscow. A commercial bank in the city of Yekaterinburg in the Urals is said to be jointly owned by Sicilian, Italian-American and Russian crime interests.

The prognosis is for more rather than less trans-national collaboration among criminal groups. The increasing integration of the global economy forces legal and illegal businesses alike to exploit new business opportunities abroad. Also, the dynamics of modern criminal operations -- the need to realize economies of scale, to minimize smuggling risks, and to recycle bulk cash proceeds -- may compel criminal groups to form partnerships with their counterparts in foreign countries. For example, the Colombian cartels have an established "umbrella" agreements with various Italian crime formations to sell cocaine into the European market. The agreements involve such matters as terms of delivery, and payment schedules and, of course, price. Representatives of Sicily's Cosa Nostra and the Cali Cartel have discussed setting up a dedicated infrastructure of commercial front companies to handle large-volume flows of narcotics and banknotes. Similar partnerships between Russian and Italian crime syndicates could dramatically increase international trafficking in weapons, narcotics and nuclear materials and components.

The Future of Post-Soviet States

The ever-widening scope of organized crime jeopardizes Western interests in the success of privatization and reform in the FSU. On the one hand, criminalization of economic structures greatly diminishes prospects of successful Western and U.S. investment. According to one Moscow think-tank, 70 to 80 percent of private enterprises
and banks pay protection money to gangster groupings and corrupt officials. At least half of all Western businesses in Russia have had to cope with extortion demands, according to a recent investment study. "Many domestic and foreign businesses prefer to turn to the Russian mafia for business and protection rather than rely on the non-criminal part of the government," concludes the study. Of course, the risks (including the legal risks) of such a course are enormous. Not surprisingly, many potential investors have opted out of the Russian market; a panel of Russian specialists estimates that U.S. companies invested an average of only $60 million per year in Russia in the period 1987 to 1993.

On the other hand, organized crime dampens the chances for reform politically. The crime issue doubtless contributed to Vladimir Zhirinovsky's recent electoral success; Zhirinovsky has called for "on the spot execution of criminal gang leaders by firing squads" and for covering government budget deficits with seizure of criminal assets. Certainly Russian conservatives or "national socialists" can use the law-and-order issue to their advantage, especially if a majority of Russian citizens come to equate the reform process with government by criminals. Given such calculations, the emergence of an authoritarian, anti-free market and possibly anti-Western regime in Russia cannot be ruled out. Alternative (and perhaps more likely) scenarios involve a symbiosis of organized crime with the breakdown of order and political centrifugal tendencies in Russia and other new states. As the government's system of crime-prevention collapses, entire regions could move out of Moscow's control. That the post-Communist world can navigate successfully between authoritarian reaction (or Zhirinovsky-style fascism) on the one hand and crime and chaos on the other obviously cannot be taken for granted.

POLICY IMPLICATIONS

The widening influence of organized crime in the FSU cuts across many aspects of East-West relations. For example, rampant illegal trade in high-tech weaponry and nuclear materials imposes new burdens on East-West disarmament negotiators and could compromise the arms control process itself. Continuing leakages of strategic goods also will require careful scrutiny of U.S. technology export policies vis-a-vis the post-Soviet states. U.S. foreign assistance policies and private investment strategies must be reconfigured to cope with the threats of criminal extortion and endemic official corruption in the new states.

Also, the metastasis of Russian organized crime imposes new demands on Western law enforcement and security agencies. For example, better safeguards against particularly dangerous forms of criminal activity -- the underground arms trade, nuclear smuggling and the smuggling of dangerous chemical and biological materials -- will need to be devised. Police and customs organizations will need cadres of officers that target specifically organized crime formations from the former Soviet states. (Such specialized units already exist in some European countries.) Also, Western counterintelligence agencies must be alert to the possibility that political groups in Russia or an anti-Western Russian government might exploit Russian criminal infrastructures abroad to
advance certain foreign policy interests. Governments historically have used crime
groups for a number of purposes -- from gathering economic and military intelligence to
exerting political pressure on neighboring states. (A recent example of government-
criminal contacts was Chinese Public Security Minister Tao Siju's meeting with Hong
Kong Triad groups in Beijing in spring 1993. Tao told a news conference that China was
happy to unite with the Triads provided they were "patriotic and concerned with the
stability and prosperity of Hong Kong." ) While Russia is not now inclined to pursue
such policies, the unpredictability of international politics (and of the political situation
within Russia itself) require that linkages between crime and statecraft be explored and
understood by relevant U.S. government agencies.

Currently, the issues of organized crime and corruption have little resonance
within the U.S. foreign policy establishment. These issues clearly should play a more
significant role in U.S. dialogues with Russia, Ukraine and other former Soviet states.
We cannot continue to formulate economic, political and security policies vis-a-vis the
FSU as though the organized crime threat did not exist. Like the South American
cocaine phenomenon in the 1980s, the spreading FSU crime menace in the 1990s has
caught the United States largely unprepared. This new threat from the East also should
alert us to the growing international linkages among organized crime, drug trafficking,
terrorism and nuclear proliferation. Unfortunately, responsibility for these issues is
currently fragmented among different federal bureaus and offices. In general, the United
States will need a new arsenal of foreign policy tools and organizational responses to
cope with the complex challenges arising from FSU crime groups and other malevolent
non-state actors in the modern international environment.