

Trying to Understand Russian Criminal Groups (RCGs) Русские/Российские Преступные Группы (РПГы)

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Ethan S. Burger, Senior Lecturer
Centre for Transnational Crime Prevention
University of Wollongong – Faculty of Law
ethansb@uow.edu.au





Should Australians Be Concerned about Developments in Russia?



- **Economic Relevance:**
 - Australia and Russia compete for export markets (coal, oil and gas, iron ore, gold, alumina, nickel & wheat).
- **National Security Concerns:**
 - Financial Crime; - Illegal Weapons Exports; and
 - Cyber Crime; - other Transnational Crime.





Preliminary Issues



- When do anecdotes about criminal groups and criminal activity become “data”?
- A troubling view: Russia is a “**criminal state**” [Edward Lucas and David Satter] that is ruled as if it were a corporation [Yuri Felshtinsky and Vladimir Pribylovsky], where the **siloviki and/or “ments”** [Lev Ponomarev] and their reliable subordinates are both the managers and beneficiaries of the “system” [Leonid Nikitinsky].
- **MY THESIS:** the **line dividing** Russian government officials, leading business figures and prominent criminals is dynamic and **not readily discernable**. Russian criminal/business organizations/governmental bodies cast expand abroad presenting new challenges for foreign law enforcement.





Some General Background



- In December 1991, the USSR disintegrates. Angry, idle former soldiers and industrial workers contribute to a dramatic increase in economic and violent crime.
- Large numbers of prisoners were suddenly released from penitentiaries. **Annually 100,000 individuals** presently “graduate” from crime school to re-enter Russian society.
- Existing institutions collapsed, most people were not prepared for the disappearance of the Soviet life style. Contemporary Russian youth were attracted to opportunities to make money quickly as societal ethics declined.
- Many aggressive/ambitious government officials and entrepreneurial take advantage of opportunities to obtain former state assets, government contracts or property rights on **VERY favorable terms. Those with the “right” contacts, ties to foreign business entities and foreign language skills were the most successful in their endeavors.**



- Widespread corruption makes the population more cynical and distrusting of law enforcement. **Roughly 80% of businesses paid “protection” money to their “krysha” (roofs).** Regular militia [police] deteriorates or is “privatized.”
- Contract killings, bombings, and street crime become commonplace – such cases were rarely solved. Wage arrears situation leads to dramatic increase in loan-sharking.
- Criminals acquire most private banks and insurance companies using them to raise funds to acquire assets during privatization and to facilitate financial frauds.
- Soviet era **“thieves-in-law”** [воры в законе, *vory v zakone*] who were “Gulag” tested and trained products who were released into the new Russian society; emerging RCGs lack their “code of ethics”.
- **Contrast today where sophisticated RCGs recruit the “best and the brightest” and retained respected accounting and law firms.**



The Myth of the Russian Mafia (мафия)



- Some “specialists” viewed RCGs either through the prism of organized crime models or as a new manifestation of a “national security” threat.
- In Russia, the **term “mafiya” [мафия]** is used in every day language to refer to the members of the country’s ruling/business elite (previously, it meant Communist party officials). Also used for criminal groups is “Bratva” [Братва] -- slang for “brotherhood”.
- In 1993, the Russian Ministry for Internal Affairs (MVD) estimated there were **5,000 RCGs in the country**, the **membership** of which was believed to be approximately **100,000**. Their members largely operated locally, although some engaged in int’l financial crimes and killings abroad.
- March 2010, a story appearing in the journal “*Nasha Versiya*” stated that there were approximately **300,000 RCG members** operating abroad – although others put the figure at closer to **500,000**. **Query: who is doing the counting and whom is being counted?**

**Fraud by Wire; RICO Conspiracy; Mail Fraud; Money Laundering Conspiracy;
Money Laundering; Aiding and Abetting; Securities Fraud; Filing False Registration
With the SEC; False Filings With the SEC; Falsification of Books and Records**

SEMION MOGILEVICH



Photograph taken in
2001



Photograph taken in
2001



Photograph taken in
2000

Aliases:

Seva Moguilevich, Semon Yudkovich Palagnyak, Semen Yukovich Telesh, Simeon Mogilevitch, Semjon Mogilevcs, Shimon Makelwitsh, Shimon Makhelwitsch, Sergei Yurevich Schnaider, "Seva"

DESCRIPTION

Date(s) of Birth Used:	June 30, 1946; July 5, 1946	Hair:	Gray (Balding)
Place of Birth:	Kiev, Ukraine	Eyes:	Green
Height:	5'6" to 5'7"	Complexion:	Light
Weight:	290 pounds	Sex:	Male
Build:	Heavy	Race:	White
Occupation:	Businessman	Nationality:	Ukrainian

Scars and Marks: Mogilevich has pockmarks on his face.
Remarks: Mogilevich may wear facial hair to include a moustache. He is known to be a heavy smoker. Mogilevich has his primary residence in Moscow, Russia. He is known to utilize a Russian passport, but may also possess Israeli, Ukrainian, and Greek passports.



RCGs in Australia



- **Oleg Deripaska** seeks larger stake in Australian the bauxite business customers (17 April 2010, Weekend Australian (Finance)).
- The **Federal Police says the majority of cyber crime committed in Australia is driven by Russian organized crime gang**. For example, Cyber attacks of Multibet website and cyber extortion via Telstra's Alice Springs network (17 August 2009, ABC Transcript and (9 September 2009, ABC Premium News).
- Money laundering through real estate apparently on Gold coast (22 April 2008, The Australian).
- Of the **200 large Australian and New Zealand organizations surveyed, 43% ranked cyber risks as their greatest worry, ahead of traditional crimes, terrorism and natural disasters combined**. (25 February 2008, Canberra Times).
- Credit card fraud traced to Russian mobsters is on the rise (9 September 2007, The Sunday Mail).
- **Fed: The Russian mafia is Australia's biggest security threat (22 November 2000, AAP General News (Australia)). Is there too much hype?**⁸



Some RCGs Typologized in the '90s



- **Solntsevskaya Group** – now globally active, although based and active in Moscow (primarily consisting of ethnic Russians).
- **Izmailovskaya Group** – also originally based in Moscow, but not active in Berlin, Paris, Miami, New York, Tel Aviv and Toronto; It engages in a range of activities including contract killing, extortion and takeover of other businesses.
- **Tambov Group** -- dominant protection racket in St. Petersburg. It is involved in real estate-related crimes, money laundering and some foreign crime activities.
- **Obshina (Society)** – a hybrid criminal-political entity, which used illegal proceeds to finance and arm Chechen separatists – it is heavily involved in the drug trade.
- *Over time, these groups found “friends” in the federal, regional or local governments and frequently formed “connections” with foreigners (shills, shams & money laundering) to create the appearance of legitimacy.*



Organized Crime & the Financial Sector



- In 2008, bank specialists estimated that there were only about 300 “real banks” out of a total of 1,200 licensed banks. Most “little more than treasuries for big businessmen or entities engaged in criminal activity such as money laundering” (e.g. Bank of New York’s local partners). Some “banks” engage in loan-sharking.
- Rapid changes in the Russian stock market and the absence of insider trading rules often necessitates the involvement of organized crime to launder money or raise money for crimes.
- Major changes in commodities is often attributable to Russian gaming in the futures market – again another opportunity for criminal banks.
- The vast majority of Russian entities with leasing licenses are actually not involved in legitimate commercial activity suggesting they are fronts for money laundering operations.



- **Some RCGs ‘evolved’ into transnational entities.** The “bottom feeders” might operate locally engaged in car theft rings, extortion, human trafficking, and murder; more sophisticated RCGs learned the art of **money laundering, drug trafficking, industrial espionage, various forms of fraud (e.g. credit card fraud, embezzlement from corporations and countries, identity theft), and selling/transporting conventional weapons.** **THE BIG FEAR:** Russia’s inability to secure its biological, chemical and nuclear materials.
- RCGs might operate in corporate forms or on an *ad hoc basis*. Sometimes they developed relationships with state officials or so-called “**oligarchs**.” Their “services” involved huge sums of money, either laundered or used to take control of Russian assets by various means.
- RCGs included as members many **professionals (e.g. accountants, bankers, computer specialists and lawyers).** Individuals with **intelligence backgrounds or had the skills** necessary to work abroad often in collaboration with foreign criminal groups were highly valued.



- At the top of each criminal group was a "pakhan" [boss] who oversaw four criminal cells through an intermediary known as the "brigadier."
- The Pakhan used two spies to monitor each brigadier (KGB motif) to ensure loyalty.
- Criminal cells tended to specialize in activities such as narcotics, prostitution, and racketeering.
- A less formal model also emerged where a leadership group would use support and security personnel as intermediaries, who in turn oversee street operators "working the street." Those working at the bottom of this structure did not know the members of the leadership groups.





UNODC Pilot Study: Potentially Useful Typologies ?



- **Rigid hierarchy** – single boss with strong internal discipline within several divisions.
- **Devolved hierarchy** – regional structures, each with its own hierarchy and degree of autonomy.
- **Hierarchical conglomerate** – a loose or umbrella association of otherwise separate organized criminal groups.
- **Core criminal group** – a horizontal structure of core individuals who describe themselves as working for the same organization.
- **Organized criminal networks** – individuals engaged in criminal activity in shifting alliances, not necessarily affiliated with any crime group, but according to skills they possess to carry out the illicit activity.

http://www.unodc.org/pdf/crime/publications/Pilot_survey.pdf



International Computer Hacking



- U.S. Secret Service arrests 27-year old Vladislav Horohorin in France (Ukrainian/Israeli national living in Moscow). “BadB” faces 12 years in jail & \$500K in fines. Why did not US authorities think of seeking the cooperation of the Russian “colleagues”?
- Russian Government/Armed Forces appreciate use of cyber attacks (Britain, Estonia, Georgia) – new “US establishes Cyberspace Command.
- **7 of 10 top spammers based in Russia.**





RCGs Thrive in Conflict Areas



- Locales rife in large-scale **violence** leads to **scarcity and opportunities** for RCGs.
- The level of violence while variable has been a constant in the Caucasus for 10 years (**Chechnya, Dagestan, Ingushetia, Ossetia, etc.**).
- Complex dynamic produced as a result of **narcotics traffickers, separatists, religious extremists (both local and foreign), RCGs** in cultures where violence is common.



Russia's 5 Richest Men



Name	Rank	Born	Billions	Initial Activity
Vladimir Lisin	32	'56	\$15.8	Steel
Mikhail Prokhorov	39	'65	\$13.4	Investments
Mikhail Frydman	42	'64	\$12.7	Oil
Roman Abramovich	50	'66	\$11.2	Steel
Oleg Deripaska	57	'68	\$10.7	Aluminum

All of the above individuals are “self-made” and compared with billionaires from other countries rather young.

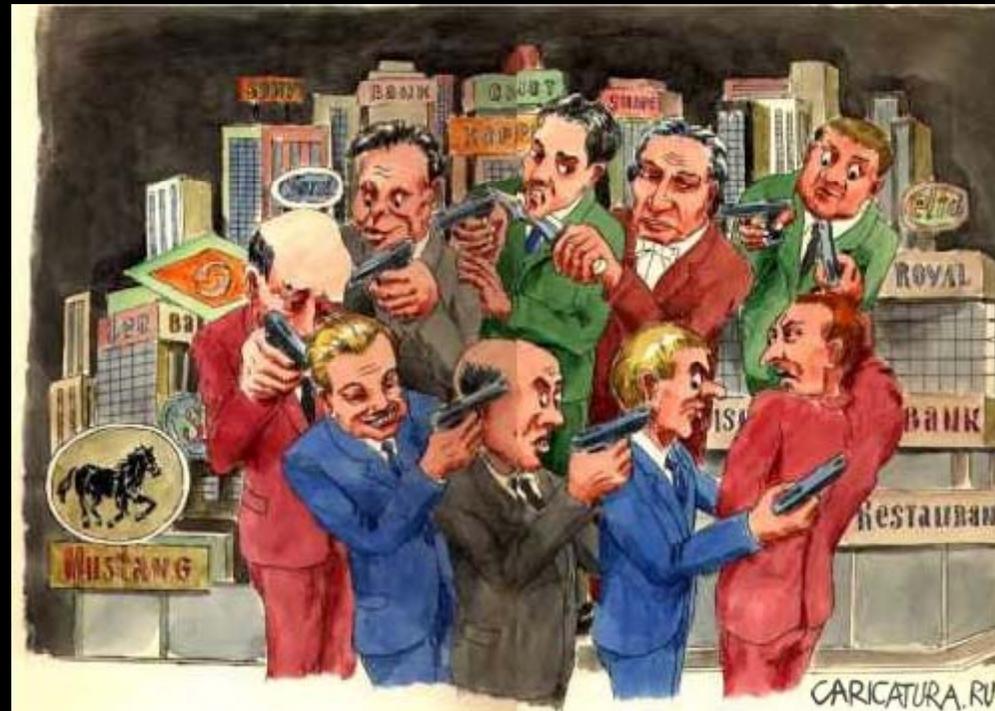
How reliable can such data be?

See Forbes 2010.



The Inter-relationship Among Business, RCG and Government (usually regional/local) Joint Responsibility/Circular Control

Кругая пргука [*Krugoiia rodika*]





The Code of Conduct for “Business” (While in Russia . . .)



- Work together without showing a profit.
- Keep double books.
- Share profits through payouts.
- Respect the informal order.
- **Make and keep friends.**
- Avoid formal institutions resolve conflict through intermediaries.
- **See Professor Alena Ledebeva’s “How Russia Really Works.”**



RCGs Examined in UNODC Pilot Project



- **Syzranskaya Group** – Samara-based, primarily involved in drug trafficking drugs (heroin, cannabis and opium). Hierarchically organized and sought local monopoly.
- **Group “21”** - based in Northern Caucasus also involved in drug in trafficking. Possessed a relatively strong ethnic identity and a hierarchically structured organization.
- **Ziberman Group** – Kaliningrad-based; involved primarily in smuggling of cigarettes and alcohol, car theft and gambling. Composed of 6 criminal groups, Sought political influence through corrupting officials.
- **Group 22** – Hierarchical structure, though organized in cells, each with specialized tasks such as purchasing of raw material, sending it to clandestine laboratories, the transportation and finally the distribution of the end product. The core group consists of 11 members, mainly Italian and Russian nationals. Makes use of professionals.



International Legal Framework



- **United Nations Convention against Transnational Organized Crime and its Protocols;**
- Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime;
- Protocol against the Smuggling of Migrants by Land, Air and Sea, supplementing the United Nations Convention against Transnational Organized Crime; and
- Protocol against the Illicit Manufacturing and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the United Nations Convention against Transnational Organized Crime.





Definitions Are Critical (Part 1 of 2)



- (a) **“Organized criminal group”** shall mean a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit;
- (b) **“Serious crime”** shall mean conduct constituting an offence punishable by a maximum deprivation of liberty of at least four years or a more serious penalty;
- (c) **“Structured group”** shall mean a group that is not randomly formed for the immediate commission of an offence and that does not need to have formally defined roles for its members, continuity of its membership or a developed structure;
- (d) **“Property”** shall mean assets of every kind, whether corporeal or incorporeal, movable or immovable, tangible or intangible, and legal documents or instruments evidencing title to, or interest in, such assets;

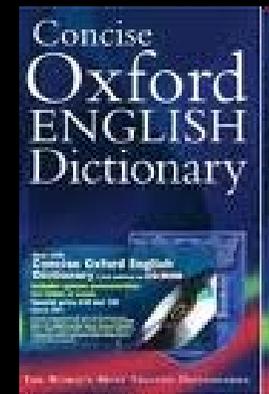
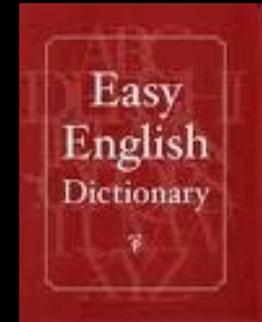




Definitions Are Critical (Part 2 of 2)



- (e) **“Proceeds of crime”** shall mean any property derived from or obtained, directly or indirectly, through the commission of an offence;
- (f) **“Freezing” or “seizure”** shall mean temporarily prohibiting the transfer, conversion, disposition or movement of property or temporarily assuming custody or control of property on the basis of an order issued by a court or other competent authority;
- (g) **“Confiscation”**, which includes forfeiture where applicable, shall mean the permanent deprivation of property by order of a court or other competent authority; and
- (h) **“Predicate offence”** shall mean any offence as a result of which proceeds have been generated that may become the subject of an offence as defined in article 6 of this Convention.





Gazprom's International Web



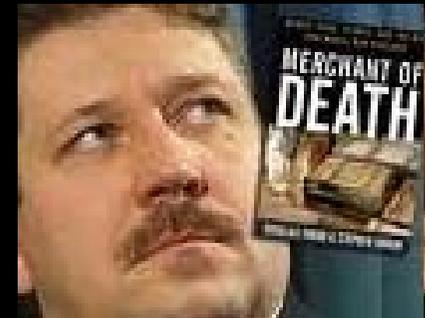
- Use of non-transparent “trading” and “financial leasing” companies organized in Austria, Cyprus, Lichtenstein, Russia, Switzerland, Ukraine and elsewhere.
- Involvement of middlemen linked to organized crime (e.g., Massimo Ciancimio, Dmitro Firtash, Igor Fisherman [**ties to Semion Mogilevich**], shady business people (e.g. Dariga Nazerbayeva, Bruno Graneli, Howard Wilson) and politicians (e.g. Silvio Berlusconi, Leonid Kuchma, Romano Prodi, Vladimir Putin, Gerhard Schröder) from Russia, Ukraine, Kazakhstan Hungary, Israel, Italy and Germany, as well as the Russian Government and its officials/favorites.
- Dealings with RosUkrEnergo, ARosgas, Centrex, CEEGAG, Itera. ETG, MDM, **Raiffeisen** Investments, EniNeftegaz (buyer of Yukos' assets then sold to **Gazpromneft**), **Gazprombank**, **Gazpromexport**, etc., involving **BILLIONS OF DOLLARS !!!**
- **How closely is the law enforcement and intelligence communities monitoring this situation? Gazprom spreads its tentacles. The liquid natural gas (LNG) market is next.**



Rosoboronexport and Russian Weapons Sales



- According to its Federal Military-Technical Cooperation Service, Russia expects to export \$9 billion worth of arms and military hardware to foreign clients in 2010.
- Largest purchasers seem to be Algeria, China India, Libya, Malaysia, Syria, Venezuela, and Viet Nam.
- **Transhipments through 3rd-party countries** like Belarus and other mechanisms to avoid reporting to U.N. Registry for Conventional Arms .
- “Private” military exporters (e.g. **Victor Bout (former Soviet GRU officer)** – both Taliban & U.S. before arrest in Thailand) and **private military forces (PMFs)** – e.g. Gorandel Trading Limited.



Russia's Wealthiest Individual?

- Vladimir Putin is reportedly worth \$40 billion, as the beneficial owner of 37% of Surgutneftegaz (\$18 billion), 4.5% of Gazprom (\$13 billion) and half of a Swiss-based oil trading company, Gunvor (\$10 billion) – his official financial disclosure forms do not reflect these assets. He has the power and authority to protect his people. Foreign governments will not challenge him.
- If these allegations are true, this fortune would make him the richest person in Europe and one of the ten wealthiest in the world. In a world of shell companies and shills, how can one know?





Presidential Immunity



- **Russian Constitution Article 91** merely states that the president “possesses immunity.” Exact scope unclear.
- In 2001, then-Acting President Putin’s Edict No. 1763 granted former President Yeltsin and his family. The “Family” was renowned for its lavish lifestyles and corruption. It gains immunity from criminal prosecution, administrative sanction, arrest, detention and interrogation for life.
- On July 24, 2007, the Federal Law 12-FZ “On Guarantees to the President of the Russian President having Ceased using his Powers and to Members of His Family” was amended so that the process by which a former president could be stripped of his immunity could only be initiated by the General Procuracy’s Investigative Committee’s Chairman.
- **Will Medvedev make Putin an offer he cannot refuse?**

