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**Organized Crime In Ukraine:  
Challenge And Response**

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## **Organized Crime In Ukraine: Challenge And Response**

*In September 2000, the head of the Kiev police, Col-Gen Yuriy Smirnov, told a working meeting of the Kiev police leadership and heads of district state administrations that Kiev had "become an asylum for rogues, prostitutes and drug addicts". Although four main criminal gangs had been dealt with, another 12 gangs continue to operate with around 60 enterprises, including some banks, under their control. The deputy interior minister of Ukraine, added that the authorities had proved helpless to deal with this, with the result that criminals were becoming stronger and more blatant. They have even "become sponsors, people's deputies of all levels and speak on television". Perhaps most important of all, Smirnov noted that the Ministry of Interior's directorate for combating organized crime had been compromised and that "protection" for criminal gangs had been established. After a recent clash between criminal organizations one of the leaders had been informed that the police were seeking him (Chepurko 2000).*

*On 27 August 2000 Leonid Wulf, a Ukrainian criminal was arrested in Israel. He was the leader of an organized crime group, Kryvyruskaya based in Kryvyi Rih, an industrial port city. Wulf, was an expert in karate, was particularly active in extortion and had control over trade union bosses. Wulf had murdered his partner in 1994. He had moved to Israel in 1997 but had continued operating his criminal enterprises in Ukraine. He had also been the target of Israeli surveillance. After*

*looking at the indictment, and the supporting material, Judge Aharon Kesirer observed that "the tentacles of Ukrainian organized crime" had reached Israel. Senior investigators on the case noted that Wulf and other Ukrainian criminals were forging links with law-enforcement elements, policemen, prosecutors, and judges "in order to get protection, gain power, and continue to extort and murder. The bottom line is that they want to gain the power to be able to run the country". Although these comments were made about Israel, they applied even more strongly to Ukraine itself (Grayevsky 2000).*

*In April 1998, just a few weeks before Ukraine was to host the annual meeting of the European Bank for Reconstruction and Development, Vadim Hetman, chairman of Ukraine's currency exchange and widely regarded as the key architect of Ukraine's National Bank was the victim of a contract killing. Hetman was due to speak at the EBRD meeting and his death was interpreted as another deterrent to foreign investment in Ukraine. Some observers even suggested that Russians who wanted to invest in Ukraine were responsible and that they had killed Hetman to make Ukraine look unattractive to Western investors ("Ukraine: Banker's Murder" 1998).*

*Pavlo Lazarenko, former Prime Minister of Ukraine is currently under arrest in the United States charged with money laundering, conspiracy,*

*and transportation of stolen property - and both Switzerland and Ukraine have requested his extradition. Lazarenko was Prime Minister of Ukraine from June 1996 until the summer of 1997 when allegations of corruption forced President Kuchma to remove him from office. It subsequently became clear that he had used his positions as Minister of Energy and then Prime Minister for personal enrichment. He had sent an estimated \$114million overseas using a wide variety of front companies and bank accounts in Cyprus and Switzerland, the United States, Antigua, and possible South Pacific jurisdictions such as Nauru (Trofimova 2001; Kostiw 2001).*

The power, pervasiveness, and impact of criminal organizations in Ukraine are evident in these vignettes. Indeed, organized crime in Ukraine has become a significant political and economic force, developing collusive and corrupting relationships with the political elite and exerting influence over many sectors of the economy. Although these criminal elements were present in the Soviet system, the elites were able to control and, in some cases, harness them for their own benefit. In the post-Soviet world, however, these phenomena have become more powerful in their own right while also merging with centers of political and economic power. These developments provide some positive consequences in the short term-for example, organized crime and the operation of informal markets offer opportunities for economic advancement that are simply not available in the nascent formal economy. Over time, however, short term benefits, whether employment opportunities or financial multiplier effects, are outweighed by

pernicious structural failures. Indeed, organized crime has delayed if not derailed Ukraine's successful transition to a democratic polity and a free market economy, has generated considerable violence and corruption, and has contributed significantly to the development of a climate that inhibits rather than encourages foreign investment. The extension of organized crime into government has also helped to neutralize some of the state's powers, making it difficult for the Ukrainian state to function effectively. At the same time, alliances between leading political figures and criminal organizations have given politics in some regions of Ukraine a particularly vicious quality.

Against this background, this paper seeks to do several things. Section one of the paper explains why Ukraine, along with other states of the former Soviet Union, developed a major organized crime problem during the 1990s, taking into account both generic considerations relevant to all states undergoing political and economic transitions and factors unique to Ukraine. Section two of the paper delineates some of the major contours of organized crime in Ukraine, briefly identifying the major forms organized crime before analyzing the variations in the phenomenon in different cities and regions. The third part of the paper provides a brief analysis of some of the initiatives that the government of Ukraine has taken to combat organized crime, and identifies some of the inherent problems that law enforcement agencies face in this effort. The fourth section suggests some ways in which attempts to combat organized crime could be significantly enhanced.

## **I. The Origins and Expansion of Organized Crime in Ukraine**

The growth of organized crime in Ukraine since the collapse of the Soviet Union has been significant. In an analysis of Ministry of Interior statistics for 1991-2000, for example, Alexander Kulik (2001) noted that organized crime investigations increased from 371 to 960 while the number of cases opened increased from 1,843 to 7,744. Moreover, between 1995 and 2000 the number of organized crime members who were prosecuted increased from 2,980 to 4,074 (Kulik 2001, p.17). While some of these increases might reflect increases in the efficiency and effectiveness of law enforcement, they also reflect the expansion of organized crime. This section of the article examines the reasons for this expansion.

### ***The Soviet Era***

The origins of organized crime in Ukraine, as elsewhere in the former Soviet Union, can be traced back to the Soviet period itself. Indeed, one of the paradoxes of the Soviet era, and one that continues to have considerable impact on the politics and economic of post-Soviet states, was the systemic repression of any legitimate economic enterprise coupled, in the later years of the Soviet Union, with a tacit condoning of various forms of illegal economic activity. This combination meant that the post-Soviet states were ill-prepared for the development of free market economies in terms of legitimate entrepreneurship and that corrupt and criminal enterprises were well-placed to exploit the new conditions.

This fundamental paradox of the Soviet system was applicable in Ukraine. Indeed, Ukraine was a particularly serious victim of a Soviet state that attempted to stamp out any tradition of economic enterprise and to bring everything within the purview and control of Moscow. The forced collectivization of agriculture was simply one aspect of a

much wider policy that would ultimately make it much harder for an independent Ukraine to develop an effective market economy. At the same time Ukraine, like other parts of the Soviet Union, had its traditional criminals or "thieves in law," its black market operators, its corrupt nomenklatura with little or no accountability, its large shadow economy, and its security personnel trained in the acquisition of western technology and various forms of covert financial transactions. Under the Soviet Union, however, the state remained firmly in control of these activities, permitting and facilitating what was convenient and squelching any activities that were not (Volkov 2002).

### ***The post-Soviet Transition***

With the collapse of the Soviet Union and the subsequent transition, many of the controls disappeared. At the same time, many members of the political and administrative elite remained in their privileged positions and found new and even more lucrative opportunities to enrich themselves. Nevertheless, significant changes accompanied this continuity. Organized crime developed new facets such as robust linkages to émigré communities and criminal organizations outside Ukraine, and penetration of the economy. Violence also increased, becoming more commensurate with the rewards that could be obtained through protection or control of business. At the same time, the relationship between organized crime and the state became more complex. Whereas organized crime had earlier been little more than a nuisance, often exploited and generally tolerated by the state, it now became more powerful, sometimes challenging the authority of the state and sometimes colluding with key members of the political elite.

The development of organized crime in Ukraine during the 1990s was far from

unique, followed a pattern similar to that in other states of the former Soviet Union. This is not surprising. State transitions shared certain common features that facilitate the expansion of organized crime: the collapse of state structures and a resulting crisis of authority and law; significant economic dislocation resulting from a profound shift in the principles of economic management and an equally abrupt change in economic practices; and a re-orientation of relationships with the outside world, usually involving an opening of the economy and the society. Each of these dimensions was present in Ukraine, taking on its own distinct shape and giving texture to organized crime and corruption in the country. The following analysis explores each of these features and then concludes with a discussion of several additional factors unique to Ukraine.

### **Problems with Authority and Law**

Transitional states lack the capacity to impose the same degree of order on the population as that achieved by the old regime. In periods of upheaval, many of the normal constraints on the behavior of citizens disappear or, at the very least, weaken. As Durkheim noted, most societies have regulatory mechanisms to restrain criminal behavior through both formal sanctions and social norms, "but when society is disturbed by some painful crisis or by beneficent but abrupt transitions" it becomes incapable of enforcing restraint—at least temporarily (quoted in Lotspeich 1995, p. 569). One reason for this is the need to rebuild the legislative framework for the management of a new kind of society that is based on different rules and norms and operates according to a different incentive structure.

Ukraine provides a classic example of the difficulties inherent in this process.

During the political and economic transition of the early 1990s, the existing legal

framework for combating criminal organizations proved seriously deficient. According to Kulik, the Criminal Code of the Ukrainian Soviet Socialist Republic, in force until 1989, dealt with crime by groups only in passing and as an aggravating circumstance. As the threat from organized crime became evident, however, 20 or so amendments were added to the Criminal Code addressing organized crime-related issues. (Kulik 2001, p.17) Inevitably, though, the process of adjusting to the new realities was piecemeal and slow. Moreover, as elsewhere in the former Soviet Union, Ukrainian laws lacked a regulatory framework for the operation of a free market, especially in terms of providing recourse for legal debt collection and peaceful (or lawful) arbitration of disputes. Such failures enabled organized crime groups to become a surrogate for government authority and serve as the enforcers for debt collection and protectors of business. This followed a pattern that had been observed first in Sicily and more recently in Russia (Gambetta 1993; Varese 2001; Volkov 2002). Furthermore, while such weak regulatory authority gave criminal organizations entrée into the business world, thereby creating a seamless web between the licit and the illicit, it also encouraged legitimate businesses to resort increasingly to ruthless methods against their competitors. As one well-informed observer noted, businessmen in Ukraine are simultaneously victims of and participants in criminal activities (Tuliakov 2001, p.21).

The sudden need for Ukraine to develop its own policies, and resources in the area of law enforcement exacerbated the situation. As Louise Shelley has stated, the collapse of the Soviet Union left Ukraine-like many other former Soviet republics-in a very vulnerable position as most of the expertise and institutions required to investigate and prosecute organized crime remained in Russia, which inherited the core centralized

institutions of the Soviet state (Shelley 1998, p.648). Ukraine was left with a criminal justice system that little experience in dealing with organized crime, and even less capacity. Although Ukraine set up a specialized unit within the Ministry of Interior to combat organized crime, the unit suffered from insufficient resources while also losing 11 of its personnel in the line of duty (Member of the Ukraine Ministry of Internal Affairs, personal communication, June 29, 2000). In short, the law enforcement system in Ukraine consists of agencies lacking adequate resources and poorly trained for their new responsibilities. These agencies face formidable adversaries: criminal organizations have abundant resources, are excellent at discovering new entrepreneurial opportunities and have some excellent defense mechanisms, including their use of corruption and violence.

Furthermore, as suggested above, Ukraine had little experience drafting laws that were relevant and appropriate to combating organized crime. Indeed, organized crime in Ukraine was well-developed by the time Ukraine began to elaborate a legal framework for combating it effectively. In 1993, however, a criminal code was adopted addressing law enforcement activities against organized crime. The law began the process of leveling the playing field: it enabled authorities to seize the assets of criminal businesses and to use the courts to then shut them down, it provided for surveillance powers, and it defined procedures for search and seizure. If some progress was made by the mid-1990s in establishing a more effective legal system to combat organized crime, however, major gaps remained. One of the most important of these was a very poor legal basis to combat money laundering. This was a glaring weakness and led to Ukraine's inclusion on the Financial Action Task Force "black list" of jurisdictions that were not doing enough to combat money laundering. Although Ukraine, under pressure from the international

community has made efforts to strengthen its laws and regulations in this area, as of June 2002, Ukraine remained on the FATF black list of non-cooperative jurisdictions.

## **Economic Dislocation**

The transition from a command economy to the operation of the market in Ukraine, incomplete as it is, has nevertheless been a painful experience involving considerable economic dislocation. There have been three major consequences of the shift in the principles of economic management and the subsequent adjustment problems:

1. *An overall decline in the gross domestic product.* Between 1989 and 1998 the Ukrainian economy declined by 57 percent, and in the view of some economists, even more significant, failed to have a single year of positive growth (Aslund 1999).
2. *The emergence of hyperinflation.* For a variety of reasons, Ukraine in the early 1990s, like other parts of the former Soviet Union suffered from inflationary pressures. Inflation measured somewhere around 200 percent in 1991, and then with the removal of price controls suffered through several years of hyperinflation. Indeed inflation reached 2,730 percent in 1992, and 10,155 percent in 1993 before dropping to 401 percent in 1994 and 182 percent in 1995. By 1996 it was down to 40 percent and dropped further to 10 percent in 1997 before moving up to 19 percent in 1998 (Aslund 1999).
3. *The growth of unemployment.* In the former Soviet Union, full employment was taken for granted. In post-Soviet Ukraine, however, unemployment has grown considerably. According to the State Committee of Ukraine for Statistics, by 1997, Ukraine had 350,000 people unemployed while two years later that number had risen

to 1.2 million. Other estimates suggest that the real figure is over seven million. Even in the official figures, though, it is clear that the young generation has been hit particularly hard, 30.5 percent of the unemployed population is under the age of 28 (Korniyevskiy 2000). It is also worth emphasizing that even when people are employed wages are so low and are often so far in arrears that the economic hardships are almost the equivalent of unemployment. As one Ukrainian authority has noted "the... unemployed are a considerable reserve for expanding and restoring the criminal potential... and the curtailed social protection programs for poor layers of the society have made many people face the dilemma of choosing between legal and criminal ways of existence" (Kravchenko 1997, p.5). This is reflected in statistics on membership in organized crime groups: for the period 1994-2000, for example, 4.9 percent of organized crime personnel were unemployed, while 18 to 24 year olds were the largest age cohort in organized crime making up almost one-third of the membership (Kulik 2001, p.19).

In short, the transition in Ukraine has been accompanied by widespread economic dislocation that has caused considerable hardship. Although members of the elite have benefited, low wages, poverty, and uncertainty about the future have encouraged the remainder of the population to engage in informal economic activities that range from barter and tax avoidance to outright criminality. It is not coincidental that Ukraine has a shadow economy that is believed to account for somewhere around 50 percent of the overall economy (Babych 1997). Much of this is informal economic activity that is simply not recorded or taxed by the state. The shadow economy, however, includes not only informal but also illegal activities. Indeed where opportunities are simply not

available in the licit economy, illicit means of advancement appear increasingly attractive. Becoming a member of a criminal organization is an alternative career path and one in which risks are outweighed by the potential gains. This has been particularly true for "sportsmen," the wrestlers, karate experts, weightlifters, and others who often provide the lower level muscle for criminal organizations, as well as for former intelligence and special forces personnel who provide criminal organizations the more sophisticated methods of intimidation and elimination that have become as characteristic of organized crime in the former Soviet Union (Volkov 2002). Throughout the former Soviet Union, recruitment of new members by criminal organizations has proven easy-the flamboyant lifestyle of many members of criminal organizations appeals to many young men who are otherwise faced with a very restricted set of drab career choices.

### **Re-orientation of External Relations**

A third common feature of states in transition is that they display a greater degree of permeability or openness to the outside world. The difficulty arises when borders are opened, as controlling who and what enters and distinguishing between licit and illegitimate business activity becomes much more difficult. In Ukraine, this is particularly the case. Ukraine has both land and sea borders and is a natural transit route for drugs and other illegal goods moving into Western Europe from Afghanistan and even from Turkey. As well as its long border with Russia, Ukraine shares borders with Belarus, Poland, Slovakia, Hungary, Romania, and Moldova. Moreover, it is relatively easy to circumvent customs. The land borders with CIS countries cover over 4,500 kilometers, and around 1,000 kilometers are very poorly protected and virtually open. Ukraine's coastal areas provide additional opportunities for smuggling through ports and connect

Ukraine with several other countries - including Georgia, Turkey, and Bulgaria - in which organized crime is rife. Not surprisingly, therefore, Ukraine has become a major transshipment characterized by both ease of transit and access to target states further west (Friman 1995).

As a result, various forms of smuggling are endemic. First, many smuggle goods into Ukraine simply to avoid taxation-a common informal market activity. The smuggling of illegal products is also widespread. In early November 2000, for example, Ukrainian authorities in cooperation with Russia, the United States and Thailand, arrested dozens of drug traffickers and seized several kilograms of heroin in the Kharkiv region. The drug traffickers were smuggling heroin from Thailand to Ukraine via Russia, The group was organized by a Moscow based Nigerian and had members from Ukraine, Belarus and Russia ("Ukraine: Crackdown" 2000). Nor are drugs the only illegal product: in September 2002, for example, a trial began in Minsk of several people who had smuggled radioactive fuel rods from Chernobyl into Belarus (Digges 2002). Finally, Ukraine is widely recognized as a transit state for smugglers of persons. In June 2002, for example, the Ukrainian Security Service arrested 8 members of a criminal organization that was attempting to "transport 15 people from northwestern Asia through Russia and Ukraine to Europe in special cars equipped with secret compartments" ("Ukraine: Security Service" 2002).

### **The Idiosyncrasies of the Transition in Ukraine**

Ukraine is certainly not alone in becoming a safe haven for organized crime. In many respects, its organized crime problem differs only in degree or detail from that in most other states of the former Soviet Union. Yet the transition in Ukraine has been even

complex and problematic than most of these states. As Taras Kuzio has argued, Ukraine in the early 1990s had to confront four different kinds of transition: from a command economy to a social-market economy; from a totalitarian political system to a democracy with a civil society; from the subject of an empire to an independent state; and from “a country possessing an uneven national identity to one with a civic, unified nation and political culture” (Kuzio 1998, p.165). Not only were there inevitable tradeoffs between these four kinds of transition, but also there were complex interactions among them that enormously complicated governance in Ukraine. Indeed, there were two distinct features of Ukrainian politics through much of the 1990s that helped to create an environment in which organized crime could flourish:

1. *A divided population.* “Ukraine’s populace is divided by region, by support for reform, and by degrees of nationalism. These divisions have strictly constrained the policy options open to Ukrainian leaders” (D’Anieri et al. 1999, p.16). With the Parliament or RADA split between reformers and communists, economic and political reform measures were introduced rather more slowly than in many other former Soviet states. Moves towards privatization, in particular, were very modest, at least initially. Furthermore, it has often been extremely difficult for the government to act decisively, and, even when it has done so, implementation has remained a major problem. The tradeoffs in Ukraine among policy objectives were so severe that there were few if any attempts to develop coherent strategies to deal with major problems such as the economy, corruption or organized crime. In fact, because of the difficulties of moving forward and solving problems, Ukrainian political competition became fixated on dividing the existing resources rather than the creation

of new wealth.

1/2Pt *Nation-building.* Because Ukraine had little recent history as a cohesive independent nation, nation-building was regarded, at least in some quarters, as a high priority. Unfortunately, the solution to the problem of nation-building was seen largely in terms of creating strong national institutions. Ironically, post-Communist Ukraine tried to emulate the former Soviet Union, simply concentrating power and authority in ministries in Kiev rather than Moscow. This had unfortunate consequences. As one economic analyst noted, "it became a national virtue to build up bureaucracy and regulations. This provided further opportunities for corruption and for rent-seeking behavior" by those in power (Aslund 1999). Moreover, the pattern of corruption at the top was emulated at lower levels, with the result that organized crime began to operate at virtually every level of political life from national to local.

If all these considerations, in one way or another, contributed to the expansion of organized crime and corruption, in Ukraine during the 1990s they also helped to shape the nature of political competition. Indeed, many of the political conflicts in Ukraine during the 1990s were, in essence, struggles for control over portions of the post-communist economy. Vertical alliances were formed among politicians, bureaucrats, and criminal organizations to compete against rival coalitions of similar players. As a result, politics, crime and corruption merged to form both a deeply criminalized political system and highly politicized criminal organizations.

Even without these additional problems that were a product of Ukraine's particular history and traditions, it is likely that organized crime in the country would

have developed and flourished in the 1990s-just as it did in the other states of the former Soviet Union. The dynamics of transition made this inevitable. States in transition, almost invariably, are weak, and as such provide a propitious environment for the emergence of criminal organizations. Weak states have unique vulnerabilities that criminal organizations exploit ruthlessly in order to ensure that such states remain safe havens within which and from which the organizations can engage in illegal enterprises with a high degree of impunity. Yet, this is the beginning rather than the end of the story. It is necessary to go beyond the prevalence of organized crime to look more closely at the forms it takes, the ways it manifests itself, and local and regional variations. Accordingly, the next section explores more fully the landscape of organized crime in Ukraine.

## **II. The Landscape of Organized Crime in Ukraine**

The landscape of organized crime in Ukraine is diverse and well-rooted. According to Kulik (2001), the regional districts with the highest levels of organized crime included Dnepropetrovsk, Zaporozhe, Lugansk, Kharkiv, Odessa, Crimea, and Kiev. In other words, it is widely distributed throughout the country, with few areas free of organized criminal activities. At the same time, as Louise Shelley (1998) has pointed out, organized crime in Ukraine is a “highly differentiated phenomenon” with important regional and city variations. With this in mind, this section explores the types of criminal organizations and the organized criminal activities most prevalent in Ukraine, and then turns to a more detailed analysis of organized crime in several cities and regions, including Odessa, Crimea, Lviv and Kiev, as well as the Donbas region. Such a survey is not exhaustive,

but provides a sense of the diversity of organized crime as well as some of the variations in its activities and operations.

### ***Organizational Analysis: The Major Players***

It is possible to discern several types of organized crime organizations and personnel in Ukraine:

What Stephen Handelman (1995) in the Russian context called “comrade criminals.” In Ukraine, like Russia, there are numerous former party members who are involved in crime and corruption, seeking personal benefit from criminal activity on the one side and the resources of the state on the other. Indeed, a large part of the problem is the survival in power of many members of the old Soviet nomenklatura, who, as one observer has noted, simply changed their party cards for national insignia (Aslund 1999). Little else changed, however, except that the opportunities for corruption, rent-seeking and criminal entrepreneurship expanded enormously.

Traditional, domestic criminal organizations that limit their scope of operations primarily to the local or national level. The predominance of organized crime is at the local level. Kulik found that 41 percent of organized crime groups were locally oriented in their operations compared with 27 percent district-wide, 18 percent nationwide, and 8 percent that were international in scope (Kulik 2001, p.18).

Transnational criminal organizations that operate in and through Ukraine.

Perhaps the best example is Semyon Mogilevich’s network, which operates out of Budapest and which is linked to Moscow’s Solntsevo organization.

Ethnic organized criminal groups (often called gangs) that operate in Ukraine, and are often involved in drug trafficking and various forms of smuggling. While some of these are from the Commonwealth of Independent States others are from further afield.

These four forms of organized crime are distinct, but there is some overlap and cooperation among them, whether in the informal and illegal economies or in depriving the state of resources. Many of the comrade criminals, for example, are closely linked to more overt criminal organizations that are willing to use violence against both political and criminal opponents. Indeed, as O.G. Kalman (2001, p.30) has observed, the regulation of Ukraine's early transition process provided an ideal milieu for the formation or consolidation of corrupt linkages: the manner in which the government handled property reform, business development, privatization of state policy, and liberalization of price controls was attractive to criminal organizations and provided fertile soil for the growth of corrupt practices. Moreover, the linkages between organized crime and government power structures in Ukraine continue to be maintained by corruption: while an estimated 33 percent of criminal proceeds was spent on bribery of government officials in the mid-1980s, in recent years this has increased to 50 percent (Kalman 2001, p. 31).

In Ukraine, however, there is not merely what is sometimes termed a political-

criminal nexus (Godson 1997) but a political-criminal-business troika, consisting partly of dense network connections among key people in the three sectors and partly of some figures straddling the three sectors, and engaging in politics, licit commerce and illegal business. In this connection, Kalman's research has revealed that 350 of the 450 Rada Deputies have some kind of economic interest in over 700 Ukrainian business concerns that in 2001 (2002) exported 13.2 million Hryvnia and received close to 5 million Hryvnia in government concessions and aid (2002). In other words, the situation in Ukraine is characterized by seamless webs between licit and illicit business and between criminals on the one side and political and bureaucratic elites on the other. Out of these seamless webs has emerged a triangle of crime, business, and politics - represented in what Ukrainian scholars are describing as oligarchs (Kalman 2001, p.30)-that is extremely strong and resilient. The triangular relationship is an alliance of convenience rather than of natural affinity, but the benefits are so deep that the relationship has become institutionalized. "Corruption of [the] ruling political and economic elite has become a norm of behavior, not an exception" (Kalman 2001, p.32). Furthermore because there is little clarity in the demarcation of legal and illegal, public and private; and permissible and prohibited, the stability and durability of the triangle are likely to continue unhindered. These conditions make it possible for someone like Pavlo Lazarenko to use his public office for private gain, robbing the Ukrainian state of well over 100 million dollars in the process. The linkages also ensure that organized crime continues to flourish. In this connection, a high-ranking Ukrainian law enforcement official has noted that although the number of organized crime groups in Ukraine had steadily decreased, the remaining groups are proving much more difficult to eradicate

because of their strong political connections. (Member of the Ukraine Ministry of Internal Affairs, personal communication, June 29, 2000).

In sum, corruption has helped feed the upsurge of organized crime in the transition in Ukraine and encouraged an influx of groups from outside the country. Furthermore, corruption in both the public and private sectors has precipitated a massive capital flight problem. It has also destroyed the trust that serves as a foundation for democratic forms of governance and free markets (i.e. the stated aims of Ukraine's political and economic transitions). Finally, with Ukraine ranking 85th (out of 102 nations) on Transparency International's *Corruption Perception Index* (2002), it is clear that Ukraine's corruption problem has undermined its ability to attract foreign investment or corporations.

Against this background, it is possible to identify several key characteristics to be kept in mind when analyzing organized crime groups in Ukraine:

The linkages between political and administrative elites and criminals. Such connections oftentimes exist at every level of government (city, oblast, and national), and serve to provide protection for criminals and added political and economic influence for politicians;

The prevalence of violence. Especially important is the proclivity of contract killings connected to traditional turf wars between criminal organizations and to more elaborate battles over particular sectors of the economy.

The level of infiltration of economic sectors. One law enforcement official has even observed that there have been "numerous cases of criminal groups seizing entire combines [for example, metallurgical combines located in Luhansk Oblast] by ...

illegal methods and aiming at the monopolistic right to resolve issues concerning the operation of certain branches of the national economy. In the Donetsk region, almost the entire Oblast Foodstuffs Company and its facilities have been privatized this way” (Valerko 1997). Some organized crime figures also exercise considerable influence through the unions.

Efforts to infiltrate law enforcement agencies. Organized crime in Ukraine uses corruption and infiltration as key components of a risk management strategy.

Corruption provides a congenial environment with a high level of impunity, while infiltration of law enforcement is useful insurance that provides advance warnings of investigations in those instances where corruption alone does not suffice to provide total protection.

The diverse portfolio of criminal activities. As the next section shows, organized crime in Ukraine is involved in a wide variety of activities ranging from trafficking in drugs, women and arms, to various kinds of financial fraud, counterfeiting of musical compact disks, car theft, arms trafficking, and extortion and protection rackets.

### ***Major Criminal Activities***

As suggested above, the wide portfolio of criminal activities is a central characteristic of organized crime in Ukraine. Criminals traffic in a wide variety of products, including persons, nuclear material, arms, drugs, religious icons, stolen cars, and intellectual property. The close links between the criminals and the political and business elites provide additional opportunities for enrichment. The virtue of this diversity is that even when there is a recession in some criminal markets, criminal enterprises can simply shift

their efforts to other areas. The degree of wealth that these criminal activities provide also contributes to a concentration of illegal power in the society and to the widespread use of bribery and corruption by organized crime. With this in mind, it is now necessary to identify some of the major criminal activities in Ukraine.

### **Arms trafficking**

The illegal smuggling or transfer of arms is a problem that has plagued Ukraine since the end of the Soviet Union. Taras Kuzio (1999) noted that the most active period for unregistered or outright illegal arms transfers was between the end of the Soviet Union and 1996. The trade during this period was quite active and involved large amounts of money. For example, between 1994 and 1997, the State Export Service Control of Ukraine registered 760 million USD of arms exports, while a Parliamentary Commission found that in 1994 alone military exports totaled 2.6 billion USD-an unaccounted for difference of 1.8 billion USD (Kuzio 1999). Aside from the profits that organized crime can garner from the arms trade, the shadowy nature of the business has encouraged corruption and massive tax evasion.

The entities engaged in the illegal or unregistered arms trade from Ukraine increasingly include organized crime or shadow organizations. After the fall of the Soviet Union, private companies with ties to the majority defense companies and ministries undertook the bulk of the trade until the government consolidated them into one large state-owned conglomerate named Ukrspetsexport. However, illegal arms transfers have continued - and organized crime has become involved. In fact, one report estimated that official state-run arms transfers account for only 20% of arms exports, with the remainder of the trade in secretive "shadow structures" (Klyuchykov 1996). The same report

details a number of active arms traders who have “squeezed out” the Defense Ministry from the trade in arms, selling everything from WWII era arms in storage to current production armaments (Klyuchikov 1996). Italian authorities, who discovered the operation in 1999 and tracked its operations for 2 years before making arrests in April 2001, estimated that it smuggled at least 13,500 tons of arms, including assault rifles, missiles, and anti-tank ammunition from Ukraine and elsewhere. The network also had ties to customers in Germany, Austria, and Belgium (“Italy Cracks” 2001). Equally disturbing was a report in the *Los Angeles Times* in 1996 that Colombian drug trafficking organizations have leased and purchased Ukrainian An-32 cargo aircraft—a charge that President Kuchma denied by stating that the planes “belonged not to the state, but to a company” (Pyes and Rempel 1996).

Finally, there have been accusations of arms transfers from Ukraine to groups and governments in active combat regions. In 1998, the Afghan ambassador to Russia stated that the Taliban was using Saudi Arabian money to purchase arms from Ukrainian organized crime and then having them shipped through Pakistan. The ambassador reported that the arms included An-32 cargo planes, T-62 tanks, and Kalashnikov assault rifles. (“Ukrainian Mafia Gun-Running” 1998). Another network of Ukrainian arms firms and private brokers, including organized crime figures, formed the foundation for a cooperative network of groups in Russia and Ukraine that, during the 1990s, supplied various groups in the Balkan conflicts—including the Croatian Army and Bosnian Muslims (Klyuchikov 1996). Finally, it was representatives of Ukraine’s Security Service in 1996 that intercepted a shipment of arms destined for the Liberation Tigers of Tamil Eelam (LTTE), a known terrorist group in Sri Lanka (Klyuchikov 1996).

## Trafficking in Persons

Replicating a phenomenon that was evident in the late nineteenth century, Ukraine in the 1990s became one of the major sources of persons, especially women, trafficked to other countries for sexual or labor exploitation. According to a global assessment in April 2001 by the International Organization for Migration ("New IOM Figures" 2001), the Ukrainian Ministry of Interior in 1998 estimated that 400,000 Ukrainian women had been trafficked in the last decade. The IOM added that Ukraine NGOs and researchers believe that this is an under-estimation ("New IOM Figures" 2001). Destinations included the Balkans, the United States, Israel and states in Western Europe. Sometimes travel agencies and other firms are used as cover to transport the women, who are recruited through media advertisements, marriage agencies, and, predominantly, through friends or acquaintances-including victims involved in the trade who return to Ukraine to recruit. There is some debate about whether the dominant traffickers are mafia-type organizations or loose networks. There is evidence both ways. Denisova (2001, p. 62), a leading Ukrainian researcher in this area certainly suggests that those involved have a high degree of organization, with leaders and specialized personnel such as recruiters, couriers, security guards, and drivers. In addition, the groups are characterized by transnational connections and a high

degree of stability. On the other hand, 69 percent of the groups involved have female leaders - which is rather atypical for traditional organized crime. At the same time, according to A.A. Shevarichin (2001, p. 65), another Ukrainian researcher working on human trafficking, some of the groups involved also commit other crimes such as drug trafficking, arms trafficking, gambling, money laundering and counterfeiting. This broad portfolio of activities is very typical of many post-Soviet organized crime groups. In light of all, this it appears that trafficking in women for commercial sex is carried out by both criminal organizations with a broader portfolio and criminal networks specifically created for this one purpose. The more obvious mafia-type organizations involved in trafficking women are located in the Donbas region of the country especially in Luhansk (Steve Cook, Chief of IOM's Ukraine Mission, personal communication, June 30, 2000). Trafficking activities have also focused on Sevastopol and rural areas of Crimea which have come to rival Mykolayiv and Luhansk Regions as high risk areas ("Ukraine Human Traffickers" 2002).

## **Drug trafficking**

Along with many other countries that made up the Soviet Union, Ukraine has developed a domestic drug market that goes beyond the traditional use of poppy straw. Drug abuse in Ukraine grew considerably through the 1990s extending to a much wider range of drugs than in the past. In 1999, it was estimated that there were 60,000 heroin users in Ukraine

("1999 Crime and Safety Report"). Three other features of the drug situation in Ukraine are also worth emphasizing. First, as in Russia, the transition from a command to a free market economy has left numerous chemists and other scientists out of work and with little money. Because of this, some of these experts have turned to the production of synthetic drugs. As one Ukrainian scholar has noted, Between 1997 and 1999 law enforcement discovered 6 drug producing laboratories in Berdyansk, 5 in Zaporizhzhya, 4 in Dnipropetrovsk, 3 in Odessa 2 in Donetsk, 2 in Lugansk and 2 in Sevastopol.

(Muzyaka 2001, p.53) The second is the growing importance of Ukraine as a transshipment country for both heroin from Afghanistan and cocaine from Colombia. For example, in March 1999 Ukrainian authorities intercepted a cocaine shipment of 624 kilos ("1999 Crime and Safety Report") while in 2000, the SBU confiscated 9 kilograms of heroin, and 6 tons of marijuana. (Regional Security Office of the US Embassy in Ukraine December 2000) The third is that the trafficking business in Ukraine involves both domestic and foreign transnational groups. Although some reports suggest that the drug trafficking business is dominated by strict hierarchical organizations, more fluid networks are also involved. The main groups include Roma and Georgian gangs as well as Ukrainian criminals (Member of the Ukraine Ministry of Internal Affairs, personal communication, June 29, 2000). In one case, a Nigerian with a Ukrainian partner used mail from Brazil to bring into Ukraine 280 grams of cocaine in 15 envelopes. ("1999 Crime and Safety Report") In sum, Ukraine, while still not a major player in the international drug trade, has certainly become more important.

## **Car Theft**

Car theft in Ukraine is another highly profitable business, and some

believe that the stolen car market is the most lucrative illegal market in Ukraine after narcotics. This market is divided into domestic and transnational sectors that are distinct but overlap with one another. The transnational component of the stolen car business connects into the global flows of stolen luxury cars from wealthy countries that criminal networks traffic to developing countries and states in transition. Ukraine serves as both a destination state and as a transshipment state for cars en route to Russia. The networks themselves are transnational or cosmopolitan in character. A trafficking ring uncovered by Ukrainian Customs officials included two citizens of Lithuania who provided the automobiles, two residents of Feodosia who brought the cars into Ukraine, and a Russian citizen who had ordered the cars for his customers. The authorities confiscated 25 stolen vehicles from this one group alone (Regional Security Office of the US Embassy in Ukraine December 1998).

Domestic car theft is also a significant problem in Ukraine, especially in winter. The problem became so bad that in November 1997, the Ministry of interior established "Cobra" a special section to target car theft and trafficking. The members of this unit, received training from other countries, and are "knowledgeable in deciphering false registration numbers and false documents" Regional Security Office of the US Embassy in

Ukraine May 1998, p.17). In 10 days alone in Ukraine, Cobra found 140 automobiles, with false documents. Two-thirds of the vehicles had new registration numbers (Regional Security Office of the US Embassy in Ukraine May 1998, p.17). Perhaps the best example of how local organized crime groups have penetrated the domestic auto theft market comes from Volyn. In 1998 around 200 hundred vehicles were stolen in Volyn with 6 different groups operating each with its own specialized niche within the larger car trafficking network. "Each group has a different purpose but they are all intertwined. The initial group seeks out its victim. The second group steals the vehicle. The third group takes the money for the vehicle that is supposed to be returned to its owner. The fourth group returns the vehicle. The fifth group serves as a 'cover.' The sixth group prepares a lawyer for the defense" (Regional Security Office of the US Embassy in Ukraine February 1999). In some cases, of course, the domestic car theft rings work closely with transnational groups, shipping cars elsewhere or selling stolen cars from overseas-thus forming the overlap between domestic and transnational markets.

## **Other Criminal Activities**

Criminal groups engage in a number of other criminal activities. One of the most important is extortion based on what Thomas Schelling, in a different context, termed the

capacity to hurt (Schelling 1966). A willingness to use violence is not only important for internal discipline and dealing with rival criminal organizations, but also in dealing with the targets or victims of organized crime. Here the key is not violence-although exemplary violence can be a powerful tool in establishing credibility-but the threat of violence. The threat is not acted upon so long as businesses pay their protection rent to the crime group. Not surprisingly, extortion is a staple of organized crime in Ukraine as it is in other countries of the former Soviet Union. It operates at a variety of levels, ranging from street kiosks and markets to major enterprises, and it appears that some criminal organizations have their own sections with personnel who specialize in violence and extortion. Law enforcement agencies, for example, uncovered 13 "punishment cells run by criminal groups in Sevastopol" that were used to force businesses to pay protection money in order to continue operating (Regional Security Office of the US Embassy in Ukraine February 1999).

Organized crime is also linked to the traffic and sale of untaxed liquor. Indeed, about 30 percent of the liquor sold in Ukraine is on the black market and is untaxed (Regional Security Office of the US Embassy in Ukraine October 1998, p.1). Another lucrative area for organized crime is theft and trafficking in intellectual property. Organized crime in Ukraine has been particularly important in counterfeiting music and software CDs. As a result of pressure from the United States and other countries, as well as organizations such as the International Federation of the Phonographic Industry (IFPI), Ukraine in July 2000 closed down five facilities producing 70 million compact disks a year ("Ukraine Closes Down" 2000). Yet, pirated music CDs along with pirated software disks are still widely available in kiosks and markets throughout Ukraine-and continue to

provide considerable profits to the criminal enterprises that manufacture and distribute them. Finally, poaching, especially in Crimea, is a crime that organized crime groups have increasingly penetrated. According to reports, criminal groups largely control fishing in Ukraine's maritime economic zone. In one six month period, "the fishing inspectorate and the police detained more than 3000 poachers along the Crimean coast" and confiscated 54 tons of fish including 12 ton of salmon ("Crimean Crime-Fighting Body" 1998). This, however, was only a small part of a problem that "has become large-scale. A large part of the catch is sold to foreign middlemen straight from the boats at sea. What remains of the catch is bought on shore by shady dealers" ("Crimean Crime-Fighting Body" 1998).

### **Supporting or Ancillary Activities**

Two activities are most often connected to the everyday operations of organized crime groups in Ukraine, regardless of the form or structure of these organizations. Contract killings serve multiple ends for criminal groups, and money laundering is the way that groups can protect the profits of their labor.

#### ***Contract killings***

Organized crime in Ukraine has a particularly violent quality. Generally, the victims fall into one of the following categories: businessmen who are resisting efforts by organized crime to infiltrate, control or extort their company; businessmen who have failed to pay debts, or are vying for control of a particular market sector or even an entity involved in privatization; politicians and officials who are engaged in criminal activities and thereby make themselves potential targets of the criminal world; local officials and law

enforcement personnel who promote reform and challenge criminal dominance in particular towns and cities, or in particularly economic sectors; investigative journalists who threaten to expose criminal activities; or criminals who are targeted by rival organizations. Victims can be a business or a criminal rival of the perpetrator (i.e. the person who hires the murderer), a threat (for example, because of information they might have or be in the process of obtaining), or an obstacle. In some cases, however, a victim of a contract killing can simply be chosen to coerce others into acquiescing to particular demands by an organized crime group.

It is easy to find examples of these in Ukraine. In December 1992 Bohdan Melnychuk, the General Manager of the Grand Hotel in Lviv was shot by a sniper. His cousin Marta Fedoriw, a US resident and the major investor in the hotel, appointed Melnychuk manager. Organized crime groups were interested in the hotel and the murder of Melnychuk was designed to force Fedoriw out of the hotel business. In effect, the contract killing was aimed at removing an obstacle (Cook and O'Hayon 1998).

There are other cases of contract killings where the killing or attempted killing was designed to eliminate a threat. In 1995, for example, Igor Pilipchuk, a candidate in legislative elections and police officer, was ambushed in his car Lviv. Vasily Kundik, a public prosecutor and an associate of Pilipchuk also survived an attack. The motive seems to have been to thwart investigations into the illegal trade in Ukrainian babies (Cook and O'Hayon 1998). Similarly, in August 1997, Boris Derevianenko, editor of *Vechirnya Odessa*, was killed while walking to work. He apparently had unearthed information about illegal trading that incriminated important politicians (Cook and O'Hayon 1998). Almost two years later, in May 1999 Boris Vikhrov, Chairman of the Odessa District

Arbitration Court, was killed outside his home, probably to stop his investigation into the legality of certain privatization deals in Odessa (Cook and O'Hayon 1998).

Business itself, however, has proven a highly dangerous activity in Ukraine as illustrated in the March 1996 killing of Alexander Shvedchenko, president of the Donetsk-based Shakhtyor Sports Club and Kiev representative for Itera International Energy Company. Shvedchenko was killed in Kiev, and two associates were also wounded in the attack. (Cook and O'Hayon 1998). It was not entirely clear whether it was the gas connection or the sports connection that led to his death. Certainly the energy sector of the economy was particularly lucrative and generated intense competition, but was not the only sector in which key figures were killed. In December 1997, for example, Arkadiy Tabachnyk, President of BIPA-Moda joint Ukrainian-German enterprise, was shot and killed along with his bodyguard in Odessa. (Cook and O'Hayon 1998). BIPA-Moda managed a significant portion of Ukrainian steel exports and was linked to Nordex, an Austrian based company with an unsavory reputation. Perhaps the most notable victim of contract killing, however, was Vadym Hetman, Chairman of the Exchange Commission at the Ukrainian Interbank Currency Exchange and a key figure in the development of economic and financial system in Ukraine.

In sum, the motives underlying contract killings are often very murky.. In some case, however, they are clearly a manifestation of turf wars among rival criminal organizations or ostensibly legitimate businessmen. These can occur over particular criminal markets, licit business, or political influence. They can also reflect a struggle for control among rival organizations, each of which is trying to impose its dominance on a particular economic sector. Sometimes the rivalry is not between organized crime groups

or leaders but among businessmen willing to act in particularly ruthless ways to obtain what they want-whether it is payment of a debt or control of another company. Indeed, even this brief survey reveals very clearly, that because of the links with organized crime both politics and business in Ukraine during the 1990s were highly dangerous activities.

### ***Money laundering***

When organized crime is successful, it still faces a problem in ensuring the safety of its money, something that can be done either by moving it beyond the reach of law enforcement through transfer to other jurisdictions and/or by making it appear that that money was profit from legitimate business activity rather than the proceeds of crime. In the Ukrainian context, several dimensions of money laundering stand out. First, members of the political and administrative elites have engaged in extensive rent-seeking behavior and accrued considerable wealth they want to hide and protect. Second, much of the money earned through criminal activities and corruption has flowed out of the country and into offshore financial centers. Third, as A.M. Gorodysky (2001, p.51), a Ukrainian specialist on money laundering, has observed, organized crime groups are skilled at identifying the loopholes in Ukraine's regulatory structure and exploiting the lax bookkeeping that Ukrainian legislation has yet to address.

Since Ukraine has a predominantly cash-based economy, it is extremely vulnerable to money laundering placement. Particularly attractive for this purpose are the 5000 or so exchange houses and casinos, which have money remitting services and currency exchange services attached to them yet minimal registration or licensing requirements. Placement can also be accomplished through the banking sector. Although rules on customer identification at commercial banks can complicate this process, they

can be circumvented. Indeed, the banks themselves are vulnerable to organized crime and corrupt employees. As the Chief of the Ukrainian Tax Police Main Directorate noted in November 1999:

“the largest number of crimes has been disclosed in the credit-financial and banking spheres. A significant number of banking institutions remain under the influence of criminal elements....this is one of the most criminalized spheres. With an eye toward personal enrichment, certain officials employed in banking institutions are facilitating the increase of embezzlement of financial resources on the part of specific commercial structures. They direct financial influxes to the servicing of base commercial deals, directly participate in the laundering of ‘dirty’ funds and the shipment of valuables abroad, and as a result, by doing so, they deepen the economic crisis in the state” (Voznyuk 1999).

In spite of this, the banks sometimes use the principle of bank secrecy to avoid cooperation with investigations.

In addition to money laundering through the banking system, laundering is also accomplished through “front” or shell companies. Often opened with lost or stolen passports and false identities, these companies make “payments” under fictitious contracts with fictitious foreign companies in offshore financial centers via offshore banks. The laundered money then usually returns to the Ukraine as clean money for investment in the privatization process, thereby creating a complete money laundering cycle or loop. In other cases, however, offshore banks are not simply the conduits; they are also the safe havens for money that is used for major purchases outside Ukraine.

According to one high-ranking law enforcement official, at least 50 senior officials have property in South Florida. These include a Deputy Minister for Energy who has a \$400 per month salary but can "afford" a \$7 million estate in Miami (Member of the Ukraine Ministry of Internal Affairs, personal communication, June 29, 2000).

A key part of the money laundering cycle is accomplished through conversion centers - agencies used to move funds both ways between the formal and informal economies and to transfer them into offshore accounts. In January 1999, the Kiev tax police directorate of the Ukraine State Tax Administration seized over 5.5 million hryvnias in the course of investigation into an illicit currency conversion center. The seized funds included 180,000 USD and over 150,000 DM in cash and 3.7 million hryvnias from the accounts of fictitious companies at the Bankivskyy Dim joint-stock commercial bank. A network of fictitious companies was receiving payments of up to 1 million hryvnias daily that was then converted into foreign currency. Almost 3000 businesses including large companies, banks, and state-owned establishments, were making use of the underground center that had dozens of specialists as well as its own database and computer center ("Kiev Tax Police" 1999).

During 1999, the Tax Police identified over 3800 sham commercial structures and 40 converting centers, through which monetary funds were converted and removed from circulation (Voznyuk 1999). These efforts continued into 2000 and over the first six months of 2000, the operation of 2,250 fraud firms was stopped and 31 conversion centers were shut down (Povolotskaya 2000). Such efforts, however, have not prevented the continued flow of money offshore. Latvian banks often provides the critical linkage to these offshore institutions, and facilitate the export of money from Ukraine because

they accept wire transfers in hryvnias, thereby allowing Ukrainian firms or individuals to circumvent foreign currency restrictions. ("Energy Companies" 2000). Once in Latvian banks these payments can then be forwarded to third parties or moved to offshore banks in hard currency. Significantly, Pavlo Lazarenko used as many as 33 different offshore centers including Cyprus, Caribbean jurisdictions including Antigua (European Federal Credit bank), and Switzerland to move his cash. Money laundering has become so severe that, as Vladimir Popovich (2001, p.43) observed, distinctions between pseudo-enterprise activity, legitimization or laundering, the accumulation of illegally acquired capital, and legal financial and economic activities are eroding, Ukraine.

### ***Regional variations in organized crime***

#### **Odessa**

Historically, organized crime has flourished in port cities such as Shanghai, Hong Kong, New York, Hamburg, and Marseilles. Inherently cosmopolitan and hedonistic, and more anonymous than more traditional and isolated cities, port cities offer opportunities for many forms of smuggling and a ready demand for commercial sex. Prior to commercial aviation they also permitted greater mobility than landlocked cities with a ready means of escape. Odessa was one such city. Located on the Black Sea, it has a long tradition of contraband and developed a flourishing black market during the Soviet era. One Western journalist noted in 1983 that much of this tradition had survived both the ravages of World War II and the homogenizing force of Soviet power. These forces had "dimmed much of Odessa's vitality" and the "Jewish ghetto, the flamboyant gangsters, the chaotic mix of Greeks, Bulgarians and Rumanians, the nouveau-riche merchants and the French-

speaking aristocrats" had "largely given way to the tedious uniformity of Soviet life" (Schmemmann 1983). Nevertheless...

"the sidewalk vendors and black marketeers, the corruption, the ubiquitous Western dress smuggled in by foreign sailors and the armies of heavy-set vacationers still sustain some of the old mood of sun, sin, languor and indulgence. Odessa's notorious flea market was closed several years ago to curtail the rampant speculation and black marketeering. But at the farmers' market and in the streets, the slick hustlers still hawk Levi "dzhinzy," Adidas T-shirts, imported liquor and Italian sunshades. Money-changers make their mumbled propositions outside the tourist hotels, and prostitutes boldly make theirs inside." (Schmemmann 1983, p. A2)

By the late 1980s the black market had become even more pervasive, and another Western journalist suggested that Odessa had retained its status as the "Mama' of Corruption" (Williams 1988). According to one black market operator who supplied cocaine amongst other things, it was possible to get anything at the weekend markets - "foreign currency, liquor, drugs, even prostitutes" (Williams 1988).

Although Odessa has a long tradition of trafficking in contraband and illicit goods, during the 1990s organized crime reached levels that were unprecedented in the city's history. An underworld that had hitherto been characterized by individuals and loose networks operating in informal and illicit markets where the profits and the stakes were rather modest, gave way to one in which rival factions of politicians and criminals fought over control of major resources in the new economy. In part, these power struggles were a result of the antagonism "between the old Communist establishment and

the new, business elite" ("The Pearl" 1998). But they were also about who was to get what share of new economic opportunities. Not surprisingly, the power struggle often turned violent. Competing clans of politicians and criminals, each of which was intent on controlling major resources of patronage and wealth, were willing to resort to almost any means to achieve their objectives.

As in Russia, the privatization process in Ukraine provided major opportunities for criminal organizations, shady businessmen and corrupt politicians. The desire to dominate the emerging capitalist economy created new alliances based on greed-alliances that combined politics and crime. The faction with the optimum mix of political influence and coercive power was likely to control much of the new economic activity and with it the huge profits that could be made. What gave this process a particularly sharp edge, however, was Odessa's strategic location in the oil business. Odessa's importance as a transshipment port for oil from Siberia en route to Western Europe was well established, as was its importance as the channel for Russian oil entering the Ukrainian market. As Ukraine tried to reduce its dependence on Russian oil in the 1990s, Odessa was the natural location for a new oil terminal for oil from Azerbaijan and the Black Sea, from which local refineries would be supplied. This became a bone of contention between Russian interests and groups that wanted to maintain monopoly control and viewed the new terminal as a threat, and those who saw the new terminal as an opportunity to challenge the status quo.

From 1994 until May 1998, the major conflict in Odessa was that between the city council headed by Eduard Hurvits, the Mayor and the oblast administration headed by Ruslan Bodelan, the governor. There were allegations of wrong-doing on both sides,

and, in fact, both figures were linked to organized crime groups. Both used the press to accuse members of the other clan of criminality, yet both also used organized crime support to extend the conflict through violence and intimidation. According to one assessment, the "Hurvits group was characterized by more clearly defined links between organized crime, the mayor's office, and commercial structures" ("The Pearl" 1998). The core of the clan was Hurvits, his deputies, their allies in the district councils, and certain businessmen such as A. Lerman, the former director of the Solo insurance company who provided financial backing. Hurvits also had close ties with several criminal bosses, ties that are attributed to his activities while director of the Ekopolis cooperative. These included Batsyla and Balashov, head of the Olimp Athletic Association who provided protection and enforcement ("The Pearl" 1998). Subsequently, Hurvits sought criminal support in the Chechen community, a move that alienated the local bosses. The clan sold municipal property as part of small-scale privatization, an exercise that in 1997 provided an estimated \$4.7 billion. The clan was involved in the city's markets, and financial operations, but wanted to move into the shipment of "large-scale" oil into Ukraine. Since the existing oil terminal was under the control of the Bodelan clan, Hurvits and his allies supported the construction of the Southern [Pivdenny] Oil Terminal. Indeed, it was estimated that "10 percent of the oil business in the Southern port was to have gone to representatives of 'shadow' circles close to the mayor, certain officials of the city executive committee and members of their families ("The Pearl" 1998).

Bitterly opposed to Hurvits and his supporters was governor Ruslan Bodelan who controlled the oblast's power structures and had strong support in agricultural circles. Among other things, Bodelan's group handled budget funds and tried to act as middlemen

between directors of enterprises and investors. The members of the clan also initiated projects such as the effort to restore deep-water shipping access from the Danube into the Black Sea (valued at \$1.5 billion). Particularly important was the Bodelan clan's hold over trade in Odessa, the transshipment of freight in the Odessa harbor, and the oil business - where criminal bosses were estimated to make \$6-\$7 on every metric ton of the approximately 12 million metric tons of oil transported every year ("The Pearl" 1998). Bodelan wanted to stop the construction of the oil terminal in the Southern port in order to maintain the criminal monopolies. Among Bodelan's most important allies was Angel Anherth, a leading criminal figure in Odessa who, at one point, had been associated with Hurvits but had defected. Another opponent of the new terminal was Leonid Minin, a Ukrainian entrepreneur, believed to be one of the most important members of what was known as the "Neftemafija" or "oil mafia" operating in Italy (Italian specialist on Ukrainian and Russian Organized Crime, personal communication, March 2001). Minin, who was involved in arms trafficking to Sierra Leone, was head of a group of approximately 20 Ukrainian criminals based in Rome, but active in other European cities including Brussels. Although Minin had Israeli citizenship, other members of the group married Italian women in order to obtain citizenship. One of the key figures in the organization was Alexandr Tcherniak, who facilitated settlement of members in Italy and acted as the key communication link with Odessa. His Grandmother was the custodian of the obshak or common fund, and accepted criminal proceeds from members of the network based in Odessa. According to law enforcement sources, the relationship between Minin and Angel Anherth was particularly close one and seemed to be an alliance of equals (Italian specialist on Ukrainian and Russian Organized Crime, personal

communication, March 2001).

The conflict became bound up with the local election campaign and increased in November 1997, following the murder of Borys Derevyanko, the editor of *Vechernaya Odessa*, when it was insinuated that Hurvits was implicated in this crime. Tension and hostility intensified in early 1998 with kidnappings and violence becoming more prevalent. Hurvits was elected chairman of the city council. Bodelan tried to have this result declared invalid and the Supreme Court of Ukraine eventually agreed to this. In June, however, Bodelan was dismissed from his position as head of the Odessa Oblast State Administration by the President who had been forced to impose his direct rule on the city. In spite of this, organized crime in Odessa has certainly not gone away. As an incisive analysis of organized crime in Odessa observed, "The city continues to offer huge opportunities for earning 'shadow' profits-oil, trade, the transshipment of freight, the use of budget funds for other than designated purposes. The traditions of Odessa's criminal world to rely on 'their' people in the structures of state government remain very strong. And it appears that no one is planning to curb the practice of using the levers of government power in 'shadow' business" ("The Pearl" 1998). Moreover, tensions among various political criminal clans vying for power continue, on occasion, to erupt into violence. In 1999, for example, violence flared between the Stojanov group and an organization led by Angel and another crime figure named Rumini, as part of the ongoing battle for territory and resources (Regional Security Office of the US Embassy in Ukraine January 1999). Attacks on businessmen also continued, suggesting that the linkages between organized crime and business were still strong - and in some cases still a matter of dispute.

At the same time, the government has made considerable inroads into organized crime and corruption in Odessa. Among those who have been arrested are former deputy mayor of Odessa Anatoly Vorokhayev who was charged with several crimes including corruption-some of the proceeds from which ended up in the Baltics. In mid-1999 the Ministry of the Interior initiated a major campaign in Odessa that made use of law enforcement officers from elsewhere. Over 1,000 criminal cases were initiated, over 200 criminals, including 70 leaders of organized criminal groups were detained, and 15 contract killers "who had performed 18 killings, 5 assassination attempts and 4 kidnappings of prominent individuals" were arrested ("Odessa 'Work Out'" 1999). In addition, the police force in Odessa was purged.

## **Crimea**

Organized crime in the Crimean peninsula is particularly distinctive, reflecting not only the geography and history of the region but also contemporary political and economic considerations. The political divisions in the Peninsula itself, as well as the tensions between the Autonomous Republic and Kiev provided an environment that was highly conducive to the growth of organized crime. In addition, organized crime took on certain characteristics that, while not unique, were more accentuated in Crimea than elsewhere in Ukraine. This is not surprising. The region is particularly attractive to organized crime because of its well-developed industry and resort infrastructure. As one observer noted, "Crimea has always been tempting the criminal element, and it therefore comes as no surprise that criminal groups are taking control of both commercial and state-owned industrial enterprises, certain authority and management bodies, facilities of the banking and credit system, and foreign economic activities" (Borodyna 1997, p.3). Indeed,

Crimea has been described as Ukraine's Sicily, reflecting the hold that organized crime gained over the peninsula during the early and mid-1990s (Kuzio 1996).

Unlike Sicily, however, it has also attracted criminal groups from outside the region and indeed from outside Ukraine itself. In the late 1990s, there were even some reports that Colombian drug trafficking organizations were buying up resort property in Crimea and were using Chechen and Armenian hitmen to eliminate their Slavic opposition. In Sevastopol, it appears they might have even worked with the RUOP [Regional Directorate for Combating Organized Crime] that arrested a Russian organized crime leader nicknamed Slavyan. Although Slavyan had connections in local power structures and allies in the police, "the competing clan... apparently had even greater clout. It used law enforcement agencies to mercilessly remove the competition from the picture". (Kondrashov 1998).

The other transnational organized crime groups that were involved in Crimea were from Russia. Indeed, organized crime in Crimea has more of a Russian flavor than organized crime elsewhere in Ukraine. This is not surprising since much of the population in Crimea still looks to Russia rather than Ukraine for inspiration and regards the government in Kiev with a degree of contempt. Proximity merely reinforces the opportunities offered to Russian organized crime by the natural affinity of the population to Russia. Given both the historical connections and geographic convenience, criminal organizations based in Russia naturally use Crimea as a transshipment region for a variety of illicit commodities moving to Ukraine or to Central and Western Europe. Similarly, there are illicit flows of commodities and cash in the opposite direction. In the mid-1990s, for example, charges were brought against the air carrier, Crimeair, for illegal

smuggling of cash to Moscow throughout 1995-96. Other local air carriers were also investigated for the same crime.

Another characteristic of organized crime in Crimea is the intensity of violence. While violence is a generic feature of organized crime, political divisions in Crimea and the inter-twining of politics and crime during the mid-1990s seemed particularly conducive to violent clashes among organized crime groups. There was also a degree of ruthlessness about organized crime on the peninsula that was reflected in a significant number of contract killings: of 120 such killings in Ukraine in 1996, 24 were in Crimea. This was a significant reduction from the 45 killings that occurred in 1995, but still meant that 20 percent of gangland killings in Ukraine took place among less than 4 percent of the population (Sikora and Golden 1997). Moreover, contract killings involved not only rival criminal organizations vying for control of particular markets but also police officers, lawyers, and politicians. Particularly notorious was the murder of Colonel Mykhailo Zvierev, head of the Department Against Organized Crime, who was shot dead in November 1996 while investigating a number of highly publicized murder cases. The following month in what was believed to be a related action there was a failed attempt to bomb the Crimean office of the Security Service of Ukraine (SBU) (Sikora and Golden 1997).

The interrelationship between organized crime and the political elite in Crimea has several distinct if overlapping facets. These include the links between major organized crime groups and Crimean political parties. According to one close observer of Ukraine, in the mid-1990s, 120 active criminal gangs were operating in Crimea, 52 of which were organized into mafia-style families. The three most important of these were

the Seilem, Shevirov and Bashmaki organizations, all of which were linked to political factions in Crimea (Kuzio 1996). Seilem was a Tatar organized crime group with links to the dozen Tatar deputies in the Crimea parliament. The Shevirov group was led by Vladimir Shevirov, an Armenian born in Russia who moved to Crimea in 1985, and was the leader of the Construction faction within the Crimean Parliament. The Bashmaki was a Crimean organized crime group linked to the Party of Economic Revival composed largely of the former nomenklatura. It was named after Victor Bashmakov who was killed in 1994 at a café along with 3 associates. All three of these groups had achieved some degree of control over economic activities in Crimea. The Seilem and the Bashmaki organizations, in particular, "control deliveries of metal and oil into Crimea and abroad, and act as patrons to local banks and commercial firms involved in tourism and transportation" (Kuzio 1996).

Another facet of the political-criminal nexus in Crimea is that the political and administrative elites play critical roles as both participants in and targets of organized crime. The victims of contract killings read almost like a who's who of the political elite in Crimea and include:

Oleksii Holovizin, head of the Crimean State Property Fund;

Dmytro Holdych, first vice minister for resorts and tourism of Crimea;

Valerii Kuzin, head of a municipal energy works;

Oleksander Safontsev first vice prime minister of Crimea, killed by a remote-controlled bomb at a recreation facility outside Symferopol in February 1998;

O. Zabolotnyy the deputy to Symferopol Tsentralnyy Rayon Council;

Oleh Pasko, chairman of the Partenitsk Town Council in Alushta, killed in August

1996.

Although it is tempting to interpret these killings of politicians as an assault on the political establishment, this was not really the case. Rather, the killings reflected the seamless webs between business, politics and crime. The political victims of contract killings were rarely reformers who were killed because they challenged the dominance of organized crime. For the most part, they were the political (and often business) component of the triangular relationships among crime, business and politics in Crimea. Pasko, for example, exercised considerable influence over the privatization of resorts on the south coast of Crimea but was in competition with the mayor of Alushta, Aleksandr Kaliadin (Sikora and Golden 1997). Indeed, in most cities and towns in the region, members of the council or other governing body were involved in organized crime. It was not simply that they had links to criminals; they themselves were deeply implicated in criminal activities. Consequently, contract killings became an extension of politics by other means, while politics itself became an extension of crime. A good example was the killing of Leonid Riabika, head of the Rozdolne district state administration, who was shot at close range in December 1996. A 19-year-old was arrested for the murder and a deputy in the Rozdolne local council was arrested for contracting the killing. Ironically, the deputy was also head of the local law and order commission (Sikora and Golden 1997).

Perhaps the most significant facet of this political involvement in crime was its enormous depth: the involvement was multi-layered, extended from the Crimean parliament to mayors and officials of various towns in the region. Part of the reason for this was the privatization process. Privatization in Crimea lagged somewhat behind that

in the rest of Ukraine. As it proceeded more rapidly during the mid-1990s, however, the political-criminal linkages became particularly important. Organized crime sought to obtain control over small and medium enterprises such as resorts and shipping ports while the local authorities controlled the privatization process. Consequently, the opportunities for cooperation, connivance, and corruption were enormous (Sikora and Golden 1997).

Not surprisingly, what was deemed to be the criminalization of power structures in Crimea aroused considerable concern in Kiev. Assessments differed with some observers claiming that 40 Crimean deputies had organized crime connections, while others alleging that 70 people connected with organized crime were holding office in the Crimean parliament and local councils (Sikora and Golden 1997). Many, if not most, Crimean parliament deputies, especially but not exclusively, members of the Economic Revival Party, were closely linked to organized crime. These included the Crimean Supreme Soviet Chairman, whose office was sometimes used for meetings with criminals, Crimean Supreme Soviet Deputy Shevyov, and a number of other deputies. Not only did the deputies cooperate with criminals, they also exerted pressure on law enforcement agencies in order to protect their criminal allies. Moreover, the politicians were able to hide behind political immunity, with the result that few investigations resulted in charges. 31 criminal cases against Crimean government officials were started in 1996, but not one resulted in an indictment (Sikora and Golden 1997).

At the lower level, city and town councils (and this was also reminiscent of Sicily and southern Italy) political figures were either linked to criminal groups or were themselves active criminals. The extent of this criminality became particularly clear as the Ukrainian government and law enforcement agencies adopted more stringent

measures against organized crime from 1997 onwards, but with particular vigor in 1998 and 1999. The coordinated offensive was initiated by the Ukrainian Ministry of Internal Affairs, the State Security Service, the procuracy, and the tax police, with the Crimean Main Directorate of the Ukrainian Interior Ministry and the Crimean Main Directorate of the Ukrainian Security Service playing leading roles. Perhaps the most important facet of this campaign was its two-pronged nature: it went after groups and leaders and also corruption and criminal politicians. Among the criminal groups that were targeted were:

The Bashmakov clan which continued to operate but was weakened by the campaign;

The Salem gangster group, whose leader Sergey Voronkov, a Simferopol city council deputy, had been imprisoned for illegal possession of weapons. The group was neutralized and one of its contract killers was arrested in Moscow as a result of cooperation between Ukrainian and Russian authorities (Lugovik and Yadukha 1999);

A criminal organization led by "Bely" and whose 50 members controlled businesses, banks and markets in Feodosia. "Police confiscated a mi-6 army helicopter, a motor boat, a fishing boat, two Lincolns and 17 other valuable foreign-made cars, most of which were stolen abroad" (Regional Security Office of the US Embassy in Ukraine January 1999);

Ankudinov's organization, whose members committed four homicides and wounded four people between 1994 and 1996 (Borodyna 1997);

A group led by Tolovirko that was involved in the illegal arms trade and extortion and whose members were implicated in the killing of Ryabika (Borodyna 1997);

The Kryukov group, which engaged in racketeering and illegal privatization in Simferopolskiy Rayon (Lugovik and Yadukha 1999).

Attacking the criminals was facilitated by the removal of political patronage and protection that resulted from the attack on the political and administrative elites with whom the criminal groups were allied. This second dimension of the attack was greatly facilitated by the removal of the deputy immunity, which permitted what was described as "the cleansing of the top tiers of power" (Yelchev 1998). Indeed, once immunity was removed, investigations became much more effective, often resulting in prosecutions and convictions. The efforts focused on Yalta, Alushta, Saki, and Krasnoperekopskiy and Leninskiy Rayons followed by aggressive law enforcement initiatives in Kerch, Feodosia, Yevpatoriya, Symferopol, and Simferopolskiy Rayon. Among the most notable development were the following:

In 1998, three deputies to the Symferopol City Council and four deputies to the Yalta City Council, were charged with leading criminal organizations;

Feodosia Mayor Shayderov was arrested;

Arrests were made in Yevpatoriya's city council: Deputy Konstantin Belomyzov and his brother were arrested for extortion and illegal possession of arms. These arrests followed that of Mykola Kotlyarevsky, a member of the Crimean parliament, deputy of the Yevpatoriya city council, and deputy head of the Standing Commission for Local Self-governance and the State Construction who was arrested in December 1998. He was a member of a criminal group that had operated in Yevpatoriya 1994-1997 and in February 1997 had ordered the murder of a Yevpatoriya businessman ("Crimean MP Arrested" 1999);

In 1999 considerable pressure was exerted on Kerch city council where the Ministry of Interior estimated that 12 of the 28 members on the local council belonged to local

criminal clans. By February 1999 criminal cases had been opened against nine members of the city council who were linked to or actively participating in organized crime ("Nine Members of Kerch" 1998).

In addition to these local efforts, criminal cases were also initiated against several former elected representatives, including Yevhen Supruniuk, former speaker of the Crimean parliament Yuri Podkopayev former vice speaker, and Victor Nikolayev former member of the Crimean parliament ("Several Crimean Local" 1999). As a result of all these arrests the criminal threat in Crimea was far less by the end of the 1990s than it had been during the middle of the decade. Nevertheless, problems remain. Criminal organizations are still active and retain some links with politicians.

## **Lviv**

Lviv and the surrounding area, located in western Ukraine near the borders with Belarus and Poland, has traditionally enjoyed strong ties to its western neighbors. A thriving trade between Ukrainians in this region and others, especially Poles, continues. Although most of this trade is legal, some illegal smuggling and tax evasion occurs on the border. While much of the smuggling involves entrepreneurial individuals or small groups, it also reflects broader trends involving more organized criminal entities that are of direct concern here. Organized crime is very active in the region. Statements from a former Interior Minister as well as other reports state that Lviv contains one of the more serious organized crime situations in Ukraine ("Yu.F. Kravchenko" 1997). For example, one contract killer working for organized crime groups across Russia and Ukraine was apprehended in Ternopil in western Ukraine-he had an impressive arsenal within his house and at least 20 killings to his credit ("Professional Killer" 1999). Many of the same

reports note that organized crime groups in this region are linked to criminal groups in eastern and central Europe, and may have connections to groups farther afield.

Lviv is a border region with growing international trade linkages in the goods and services markets-linkages that organized crime groups are infiltrating and exploiting. The predominant activities of organized criminal enterprises in Lviv are those connected with illegal trade, large scale foreign trade fraud and, even more insidiously, the trade of human beings. In the mid-1990s, the trafficking in persons-specifically the sale of babies-began to flourish in the region. In 1995, in the city of Lviv, at least 130 newborns were stolen from their mothers and sold to couples in the US and Western Europe. The ring was part of a larger conspiracy that secreted over 800 babies out of Ukraine. The babies sold for an estimated 40,000 USD per baby. When the baby smuggling ring was first identified, it involved three doctors and other unidentified officials who helped forge the paperwork necessary to shield the disappearance and the transfer of the babies. During the investigation, however, ties to organized crime were identified and it emerged that criminal penetration of critical ministries had led to protection of the smuggling ring. In addition, an attempt was made on the life of the chief investigator of the case, Igor Pilipchuk, and one of his colleagues.

### **Donbas Region**

Organized crime is well entrenched in the heavily industrialized region of southeastern Ukraine known as the Donbas. Encompassing the coal-mining and industrial towns along the Dniester River, including the cities of Donetsk and Dnipropetrovsk, the Donbas region has a form of organized crime that is not found in other regions of Ukraine. Specifically, the Donbas is home to "political clans," groups of powerful political

machines that have produced numerous important officials in the Soviet Union and post-Soviet Ukraine. It is through these political clans that organized crime is able to gain its influence. Indeed, in the Donbas region organized crime is not the traditional racketeering or smuggling seen in other parts of the country, but rather has graduated to new forms of rent-seeking on a massive scale-the penetration of legitimate structures and the outright theft of state resources. It is this that separates organized crime in Ukraine-and indeed in other parts of the former Soviet Union - from organized crime as it has traditionally existed in countries such as Italy and the United States. Organized crime in Ukraine has involved the large-scale theft of state resources often accomplished through alliances among criminals, businessmen and politicians.

The ultimate example of this nexus was the Dnipropetrovsk clan, the leaders of which dominated business and politics during the mid 1990s. Pavel Lazarenko, a former state-farm boss, who graduated to prime minister and then international fugitive, was a key figure in the clan. So too was President Kuchma, who solidified his own power within government through the placement of his friends from the city with over 200 government posts and 55 high-ranking positions. The level of corruption under Kuchma and Lazarenko became so bad that, in 1999, the US began to withhold aid from the country in 1999 on the grounds that Ukraine lacked the political will to fight the problem.

The case of Lazarenko, a high-ranking member of the Dnipropetrovsk clan, is illustrative of just how far some members of the clans went to obtain personal enrichment. According to US and Swiss indictments, Lazarenko profited from the purchase and sale of energy contracts, specifically natural gas, while he was the energy minister of Ukraine, and then also embezzled millions of US dollars in state funds while

prime minister in 1996-7. He stands accused of transferring over 114 million US dollars obtained through corruption, theft, or other illegal activities into US banks between 1994 and 1999. Furthermore, it appears that Lazarenko used his office to obtain passports and other forms of documentation for the leader of the Dnipropetrovsk mafia and a major Russian organized crime figure (Ivzhenko 1998).

Finally, it is clear that many of the contract murders and assassination attempts that plagued this region during the 1990s were related to turf battles amongst the clans and the mafia groups. The assassination attempt against Lazarenko in 1996 appears to have been a direct result of such a power struggle. It is believed that the Lazarenko was stepping on important Donetsk coal interests, including those of Supreme Rada deputy, Vladimir Shcherban, generally acknowledged as one of the richest and most influential figures in Donetsk. Certainly the attempted killing compounded the rivalry between the Donetsk and Dnipropetrovsk "administrative and commercial" elites and it was not entirely surprising when Shcherban himself was murdered some months later. He, his wife, and an airport employee were shot on the tarmac of Donetsk airport. Lazarenko was subsequently implicated in several contract killings.

## **Kiev**

Not surprisingly, Kiev has been host to major criminal organizations intent on exploiting the financial infrastructure. According to one report, "Kiev is divided among six groups. The strongest group is run by Solokha, who controls the automobile business, strong commercial firms and the gaming business" (Regional Security Office of the US Embassy in Ukraine February 1999). Other criminal leaders include Prishch, Avdisheyev, Fascist (who ended up with a significant jail sentence), and Kisel (Regional Security Office of

the US Embassy in Ukraine February 1999). There are also several smaller, less powerful groups that are able to move into the vacuum as law enforcement targets the major organizations. Indeed, in spite of claims by law enforcement that in 1997 and 1998 it managed to cut membership of organized crime in half, the influence of organized crime in many of Kiev's commercial firms and entertainment establishments such as casinos and nightclubs remained strong. The control of criminal and legal markets by criminal organizations in Kiev also remained jealously guarded. In April 2000, for example, two men from Donetsk were killed and another wounded after they tried to open an alcohol business in Kiev (Regional Security Office of the US Embassy in Ukraine April 2000). Although extortion remained pervasive, with American and other foreign businesses being targeted along with traders in local markets and street kiosks, law enforcement has made some inroads into the problem. In May 2000, for example, police arrested racketeers who had been extorting taxi drivers and vendors at the Boryspil Airport (Regional Security Office of the US Embassy in Ukraine May 2000). They also tried to obtain cooperation from vendors at the open air market on Troyeshchyna (Regional Security Office of the US Embassy in Ukraine August 2000). Extortion, however, is one of the most difficult crimes to combat because of the fear that is so deeply instilled into the victims by criminals who are all too willing to resort to violence and are often heavily armed. Moreover, even when victims appeal for protection, it is not necessarily forthcoming. In October 2000, the director of the Fashion Development Center in Kiev was killed. She had appealed many times to police and the procuracy for protection because of threats by criminals. In spite of various threats and incidents of violence against her, the protection was not provided (Regional Security Office of the US Embassy

in Ukraine November 2000). She was not the only victim of what were clearly contract killings. Two months earlier, in August 2000, a bank official had been killed, while in September another banker and a "former" gang boss were wounded while together in a Mercedes. Over 60 bullets were fired at them (Regional Security Office of the US Embassy in Ukraine September 2000).

Because Kiev is both the political and financial capital of Ukraine, it is also the city where the overlap between organized crime and financial crime is most obvious. Counterfeit currency, sporadically at least, is a major problem in the city. In November 2000, for example, police detained 7 individuals passing off counterfeit money that was stored in their BMW. Moreover, as discussed below, much of the money laundering in Ukraine takes place in Kiev. Kiev is the central location for the transfer of money from the legal economy to the shadow economy and has its own cottage industry for this purpose. It is also the place from which money goes out of the country.

### **III. Law Enforcement Challenges**

Ukraine's criminal justice response to organized crime remains embedded in its Soviet past. While over a decade has elapsed since the end of the Soviet Union, the Soviet period still heavily influences many of Ukraine's legislation and criminal justice structures. Incremental changes in the legal framework together with the new Criminal Code have provided more effective weapons for combating organized crime. In addition, important successes have been achieved, especially in disrupting some parts of the criminal political business nexus in Crimea and Odessa. There is also one area in which Ukraine has had made enormous strides - international cooperation. Ukraine has been

very active in seeking and formalizing cooperative law enforcement agreements with other countries. The government has signed agreements with Germany, Belarus, Poland, Slovakia, Israel, Romania, Moldova, and Hungary, and has sought training and other assistance from the United States and the European Union. Ukraine has also approved a Mutual Legal Assistance Treaty with the US that allows for legal information sharing and vastly improves the capabilities of prosecutors to try cases (Boone 2000). Such agreements have paved the way for increased law enforcement cooperation at the operational level including information sharing. For example, in the summer of 1998 Russian and Ukrainian law enforcement combined forces in 10 border provinces to arrest nearly 1000 members of roughly 32 criminal gangs and to confiscating almost 200 firearms, 5 kilograms of explosives, and over 100 kilograms of narcotics (Gordeyev 1998). In addition, Ukraine has welcomed foreign law enforcement officials, such as FBI agents, into Ukraine to facilitate bilateral law enforcement. Ukraine has also cooperated on extradition matters, in one case extraditing a Turkish organized crime boss back to Turkey for trial ("Organized Crime Boss" 2000).

Ukraine has also participated in efforts to control the regional and transnational linkages between criminal enterprises in Ukraine and organized crime elsewhere. As well as playing an important role in shaping criminal justice and law enforcement efforts within the Commonwealth of Independent States, Ukraine has looked to other regional bodies form networks of cooperation. In 1998 Ukraine promoted and signed an anticrime accord among the states of the Black Sea Economic Cooperation Forum that recognized the need for smothering organized crime in order to promote economic development ("Ukraine Signs Black Sea" 1998). Ukraine also operates a national central bureau of

Interpol and in 1999 hosted a gathering of numerous CIS countries and Interpol representatives to discuss common threats from organized crime and terrorism ("Ex-Soviet Security Officials" 1999). Cooperative agreements, however, are not limited to law enforcement agencies. Corruption is another important area in which Ukraine has collaborated with both other countries and with international agencies. The government adopted a limited anti-corruption program with the World Bank designed to increase transparency in the country, and has also worked with the US to reduce corruption (Boone 2000). If this record of international cooperation is quite impressive, the challenges facing Ukrainian law enforcement at the domestic level remain formidable. This is partly because of the depth and breadth of the organized crime problem-and especially the linkages between the criminal world and the worlds of business and politics-and partly because of problems in the criminal justice system itself.

One of these problems is limited coordination and cooperation among various agencies. Ironically Ukraine's record of international cooperation is not matched by equally effective cooperation at the domestic level. This is all the more important because of the moribund nature of the National Bureau of Investigation - which was envisaged as Ukraine's FBI but never really had the political support necessary to be effective. Investigation and prosecution of organized crime in Ukraine is hampered by a lack of cooperation both among different institutions while cooperation within particular agencies-especially between the central headquarters and the district or regional offices-is often seriously deficient. In other cases, the regional offices themselves are unable to communicate directly with one another. This is the situation with the border guard where technical and organizational barriers leave the outer offices unable to communicate with

one another except by routing their communications through the central headquarters in Kiev. Cooperation between agencies is also problematic. For example, the border guards are limited to investigating or pursuing cases that occur within 5 kilometers of the Ukrainian frontier, but have poor communication and little experience with joint investigations with the MVD. A third hurdle stems from different bureaucratic cultures and philosophies. At times, of course, these can be overcome and some attacks on organized crime have been particularly effective when they have involved both the MVD and the SBU. Nevertheless, more systematic efforts have to be made to enhance cooperation if combating organized crime and corruption are to obtain longer-term success (Member of the Ukraine Ministry of Internal Affairs, personal communication, June 29, 2000).

Beyond problems related to coordination and communication several other distinct problems inhibit Ukraine's efforts to combat organized crime. The first challenge concerns the development of human resources to staff law enforcement agencies. Ukraine is developing a skilled corps of investigators and other professionals to address organized crime, but this is a long and arduous process. The difficulties are exacerbated by the problems of protecting and retaining individuals who are well-trained and experienced. As well as suffering from attrition through attacks on police officers, law enforcement effectiveness is diminished by the loss of personnel to the private sector where the rewards are greater and the risks and dangers rather lower. Moreover, the problems are not confined to law enforcement agencies. The judiciary continues to be plagued by inexperience, shortages in personnel and concerns over protection, all of which impede the proper functioning of the courts.

The second challenge is the lack of resources and infrastructure within the criminal justice system. Because Ukraine historically was merely a part of the larger Soviet Union, many of its communications and other infrastructures were not established along national lines - and, in some cases, were severed at the end of the Soviet Union. For example, the border with Belarus and Russia, internal frontiers during the Soviet Union, did not contain the hard border control points characteristic of the frontiers with Moldova and Poland. Furthermore, law enforcement does not have sufficient funding to purchase and maintain vehicles, office space, and other basics-not to mention the technology needed for modern investigations. For example, the border guard's telecommunications system is based on 1930s era technologies.

The third challenge is corruption in the criminal justice system. Although this should not be exaggerated, it can be significant. In 1998, for example, 12 officers of the Mykolayiv regional Department of the Interior were sentenced to different terms for committing crimes, 11 had pending criminal cases, 2 were found guilty of bribery and 3 of power abuse ("Ranks of Law-Enforcement" 1999). In some cases, policemen go into business for themselves, in effect, emulating those they are supposed to be fighting. One of the most striking cases of this occurred in Kerch where district police inspector Vitaly Hrona started his own "business" by requiring payments of US\$ 30 a month from owners of local kiosks. He was arrested by the SBU after a kiosk owner complained to the Security Service ("Local Bureaucrats" 1999). In other cases, policemen defect by establishing linkages with organized crime and providing information. The problem is exacerbated, of course, by corruption in the judiciary.

In light of such problems and challenges, the successes that law enforcement has

achieved in Ukraine are remarkable. These successes and the ways in which they can be consolidated and extended are the theme of the final section.

## **IV. Recommendations for Combating Organized Crime in Ukraine**

Even though organized crime in Ukraine has made deep inroads into the political sector as well as law enforcement agencies, it has not achieved complete immunity from law enforcement efforts. Indeed, in view of the scope of the problem and the entrenched linkages between crime politics and business, some of the successes against organized crime can only be seen as remarkable. Perhaps the most important of these have been in Crimea where law enforcement disrupted criminal organizations, reduced corruption, and exposed and eliminated links between criminals and corrupt politicians and businessmen. In Odessa too, more direct involvement by the central government in Kiev had a considerable impact in stabilizing the situation after the conflict between Mayor Hurvits and Oblast Governor (subsequently mayor) Bodelan, threatened to become totally out of control. The successes have also been reflected in law enforcement statistics. In 1998, for example, over 1,157 criminal groups, with 4,856 members were disbanded. They were responsible for 9,000 crimes that included 127 killings, 670 attacks, 468 cases of extortion and 648 cases of theft of state and communal property. 92 criminal cases were opened against members of the groups. (Regional Security Office of the US Embassy in Ukraine February 1999) The meaning of such figures, of course, is open to considerable interpretation. There is always a danger that they reflect a very narrow view of measures of effectiveness rather than a real attempt to assess their overall significance in terms of

combating organized crime. When criminal groups are disbanded, for example, it is possible that they are simply replaced by other groups. Moreover, it is often the weaker and less adept criminal organizations that are taken down, leading to a Darwinian evolution in which those that are left are often the most efficient, effective and ruthless, and now face less competition. As much as anything else, such figures reflect the dynamic quality of organized crime in Ukraine-as some groups are disrupted, their members simply gravitate to others in what is a phenomenon characterized far less by rigid hierarchies and tight and static organizations than loose flexible network-based structures that adapt rapidly to pressure.

Nevertheless, this is not to deny that there have been considerable successes. Among the most impressive of these has been the gradual increase in the rate at which contract killings were solved, and, as suggested above, the inroads that have been made in dealing with organized crime in both Odessa and Crimea. These successes have involved giving high priority to a particular activity, region or city, the allocation of resources and manpower commensurate with the task facing the law enforcement agencies, closely coordinated efforts between the SBU and the MVD, and between national and regional bodies, and the targeting of all those involved, whether criminals, political figures, or criminal entrepreneurs. Indeed, the successes highlight very clearly the overall need for a more systematic and focused agenda revolving around a comprehensive strategy for fighting organized crime. Such a strategy also needs to reduce opportunities for exercising influence and the generation and enjoyment of criminal proceeds. In effect, it needs to bring about environmental modification based on appropriate legal and regulatory approaches, especially in the financial sector. This has to be combined with

more vigorous attacks on criminal organizations and those in politics who support and assist them. With this in mind, the following measures are particularly important:

### ***A Comprehensive Strategic Approach***

There needs to be an overall strategy for fighting organized crime. This requires a set of clear objectives that are explicit but also realistic about what is and is not feasible within particular levels of resource constraints. It also requires a comprehensive approach: arresting and incarcerating members of criminal organizations is not enough; it is vital to develop a broader approach that simultaneously targets leaders, organizational structures, overall profits, and the connections between criminals and elites and that is based on carefully considered rather than facile measures of effectiveness. As part of this, it is necessary for Ukraine to implement adequate measures against money laundering (and capital flight) especially links with offshore financial centers of dubious respectability. This has been a major area of weakness and deficiency exploited not only by organized crime but also by corrupt elites. Perhaps the most urgent task for Ukraine is the implementation of more comprehensive anti-money laundering measures that provide for careful monitoring and reporting of suspicious transactions in the financial system, effective asset seizure and forfeiture, and inhibitions on the outflow of funds from Ukraine into the offshore financial world. The passage of a new legal framework to combat money laundering is underway, but even after it is in place, emphasis needs to be placed on implementation. Indeed, only if Ukraine systematically and vigorously implements the new legal provisions and obtains significant money laundering indictments and convictions, will money laundering go from a low-risk to a high risk

activity. Anything less than this will achieve cosmetic conformity with FATF norms and standards but do little actually to inhibit money laundering.

The strategy needs to go beyond law enforcement and criminal justice to include environmental modification through appropriate regulatory approaches especially in the financial sector, educational measures, and the like. In effect, such an approach is intended to reduce opportunities for organized crime exploitation. Partnerships need to be forged between government and law enforcement on the one side and the burgeoning private sector on the other, whether with investigative journalists, or banking officials who need to exercise levels of due diligence and meet know your customer requirements that accord with international norms and standards. The strategy also needs to incorporate a capacity for learning - about what works and what does not, whether the lessons are derived from experience in Ukraine itself or relevant developments elsewhere.

### ***Enhanced State Capacity***

The issue is not only about strategy it is also about state capacity. Organized crime is able to flourish in countries where the state is weak (some of which are characterized by strong leaders but weak institutions). Gaps in state capacity generally lead to functional holes (normal functions of the healthy state that are left unfulfilled because of the capacity gaps) that are either filled (e.g. organized crime providing protection and redress for business-normally a function of the state and its legal system) or exploited by criminal organizations that operate with a high level of impunity. In thinking about priorities for assistance in the fight against organized crime, it is important to define needs broadly rather than narrowly, to develop state capacity in ways that eliminate functional holes of

any type that might be exploited by organized crime. Kalman addressed this problem specifically, when he observed that “numerous declarations of higher state officials and current anticorruption legislation are directed at counteracting corruption in all power branches, [but] do not find ... adequate practical applications” (Kalman 2001, p.32).

In relation to this, the state needs not only to consider the material shortcomings of its law enforcement units, but also to address comprehensively the human capital within both law enforcement and the judiciary. As mentioned above, the investigators and procurators that staff the law enforcement apparatus combating organized crime in Ukraine require further training and instruction in both simple and advanced techniques. Dr. Konovalova, a leading Professor at the National Law Academy, for example, has identified key components of “tactical operations” that serve as investigative methodologies for law enforcement and provide a basis for the development of “best practices” and other training regimens for anti-organized crime personnel. She has also recommended that details of these procedures be captured on electronic media and widely distributed to district-level organizations combating organized crime. (Konovalova 2001). Complementing these proposals are recommendations by Natalia Sibilyova (2001), who has focused on the judiciary and the measures necessary to ensure free and fair adjudication of criminal cases. She has recommended that Ukraine create special legislative provisions to protect judges in two important ways. First, in order to protect judges from criminal groups and other forms of external blackmail hearings, in some cases, should be closed as a minimal measure of protection. Second, legal reform is required to protect judges internally: judges holding preliminary hearings often have to consult with higher judges - whom they rely on for promotion - before making a ruling.

The potential for undue influence or conflicts of interest in this situation should be removed by legal reforms (Sibilyova 2001).

### ***Target the Political-Criminal Nexus***

It is critical to target the political-criminal nexus in all its manifestations and at various levels ranging from city and oblast to the national level. The most significant threat to Ukrainian stability comes from organized crime related corruption and the demonstrated ability of organized crime to penetrate state agencies. The difficulty, of course, is that vested interests within the political establishment have no desire for greater openness and transparency, not least because this might reveal their own links with organized crime. Overcoming these entrenched interests will not be easy. Nevertheless, it is essential for those who want political reform to continue to work to establish the rule of law, greater accountability, and more transparency. It is also important that explicit efforts be made to identify key nodes and connections in the organized crime-corruption networks in Ukraine (and especially the cross-over points between the underworld and the upperworld), a process that can be significantly enhanced by the use of sophisticated link analysis software packages.

### ***Enhance Intelligence-Led Policing***

It is important to develop a more effective intelligence system for anticipating and understanding developments in organized crime in Ukraine as well as possible links to developments elsewhere. Intelligence-led policing is particularly important in relation to organized crime and is both essential to and consistent with the requirement to think strategically rather than simply to “buy and bust” or identify and arrest. Intelligence is

critical to understanding the strengths and weaknesses of major criminal organizations and developing strategies that can circumvent the strengths and exploit the weaknesses. In this connection, an important priority is to target the burgeoning alliances between domestic criminal organizations in Ukraine and groups from elsewhere operating in Ukraine. Based on mutual convenience and complementary needs, such alliances can act as force multipliers for organized crime. Consequently, identifying and disrupting them ought to serve as a high priority for Ukrainian intelligence and law enforcement efforts. Other areas that need to be examined more closely include the modalities and mechanisms of money laundering, the operation of criminal markets in Ukraine, linkages between criminal and political figures, and the operation of criminal-controlled companies.

### ***Extend International Cooperation***

It is important to deepen and widen the existing, and very positive, trend towards international cooperation. This needs to be done at various levels. Great strides have been made in reforming and strengthening the legal system, but efforts are still required to bring Ukraine up to international norms and standards in particularly weak areas such as anti-money laundering legislation. It is also necessary to strengthen the legal basis for extradition and mutual legal assistance by further extending bilateral and multilateral agreements with a broader range of countries. Where possible, Ukraine also needs to deepen and broaden its participation in regional or multi-national task forces. Such operations help to create trust among law enforcement agents from different countries and in effect allow police to develop the same kinds of transnational connections and

networks that the criminals enjoy. This is an important step in the effort to level the playing field.

These recommendations are part of what obviously has to be a much broader and more comprehensive agenda for the continued strengthening of efforts to combat organized crime and corruption in Ukraine. Nevertheless, they represent a carefully considered set of priorities that promise to overcome continued deficiencies while also building on the progress that Ukraine has already made in what will continue to be an enormously tough endeavor. It is as well to keep in mind that the fight against organized crime is typically characterized as much by setbacks as by success, as much by failure and disappointment as triumph and achievement. Organized crime is like a constantly mutating virus that out-maneuvers efforts to destroy it. If it can be isolated and quarantined, then harm can be limited. Yet even this modest objective is difficult to achieve. The initiatives suggested here are certainly no guarantees of success, even with the modest objective of harm reduction. Yet without such measures, Ukraine will continue to suffer from the pernicious consequences of organized crime and corruption. The implementation of a strategy that is comprehensive in scope while highly selective in its targets and priorities offers at least some hope that such an outcome can be avoided.

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