

Service for Analysis and Prevention

The Swiss Federal Office of Police

Strategic Analysis Report

[Confidential]

Organised Crime and the Special Services of the Commonwealth of Independent States

June 2007

Contents

- Key points
- Organised Crime and the Special Services of Commonwealth of Independent States (CIS):
 1. The historical relations between security services and criminal structures
 2. Criminal groups today
 3. Special services today: the FSB-isation of the country?
 4. The relations between organised crime groups and the security services
 5. The situation in Switzerland
 6. Counter-measures

Key points

The Federal Law on Internal Security Protection Measures (BWIS) mandates the Service for Analysis and Prevention (DAP) to develop measures to promptly discern and prevent the threats of illicit operations by foreign intelligence agencies (Item 3 of Article 2).

Over the past few years, DAP has been receiving a growing number of indications that members of organised crime groups from CIS countries maintain liaisons with the intelligence services of their countries. German Intelligence even mentions a “symbiosis” between organised crime and secret services.

Since Vladimir Putin’s entry to power, the Russian security services, especially the Federal Security Service (FSB), have been significantly reinforced.

Considering Russia’s economic growth and the expansion of the country’s influence in the sphere of energy, it is necessary to examine the role of security services and organised crime within that sphere. It

must also be established whether they still preserve their connections, how those connections are made, and how they function in the Swiss territory.

This report contains a brief historical overview of the relations between the KGB and organised crime in the Soviet era and presents information on the current state of relations between organised crime groups and the security services of former members of the USSR, especially with regard to Switzerland.

The following questions require primary attention:

- Is there any evidence, or at least an indication, of the existence of links between organised crime groups and the security services?
- What is the nature of their day-to-day liaison, who benefits from it, and in what way?
- Is Switzerland involved in such schemes and, if so, to what extent?

This report is based on DAP data obtained through counterespionage operations, as well as information from foreign intelligence services and open sources. As Russia is the main source of both espionage and organised crime, it is mentioned in the report more frequently than other CIS countries.

– Illicit schemes affect many spheres of the economy: banking and finance, which is the key sector for money laundering, as well as the oil trade, biotechnologies, specialized trade, and transport. We also believe that, in a number of cases firms, are established under a formal pretext specifically to engage in illegal activities.

– Existing companies emerge again in new contexts. In particular, we observe that apparently Swiss companies belonging to Nordex Group have been used by suspected crime groups for money laundering.

– A number of links leading to organised crime groups and security services have been disclosed in connection with the money laundering case at the Bank of New York. This points to the fact that, in this case, in which approximately \$7 billion was siphoned off, both sides worked together and had a common goal.

– It has been established that many different companies are represented by the same Swiss dealers and agents. We can assume that there is a constantly functioning network of Swiss nationals who provide backstopping for security services and organized crime groups, facilitating their business operations. It remains unknown whether those people have been hired by security services or by members of organised crime groups.

– Most illegal operations imply money laundering. However, there are also indications that there are instances of trafficking in arms, radioactive substances, women, and drugs.

– Apparently, it is not unusual for security service officers to give up their diplomatic careers to go into business (like, for instance, persons with the initials C.R., R.D.). In such cases, it is hard to escape a suspicion that private companies may be used for intelligence purposes. However, this is hard to prove, even if the contacts of the former officers are revealed.

– It is impossible to establish whether the relations between security services and organised crime groups are of a systematic character. Modern developments in Russia, especially the growing influence of the FSB and the trend towards “state-managed capitalism”, indicate that the FSB seeks to assert total control over all overseas economic activities of Russian citizens and businesses. Considering the spread of corruption in the FSB, it can be assumed that leaders of criminal groups may come into favour with the FSB or even gain its assistance in exchange for bribes.

Organised crime and CIS security services

1. History of relations between security services and crime groups

The emergence of organised crime in the CIS is rooted in the GULAG camp culture in the Soviet Union. In the late 1920s, due to mass repression, the number of political prisoners in prisons and forced labour camps increased dramatically. Prisoners were detained in large compounds, where they were largely left to their own devices. This quickly led to the appearance of a hierarchy among the prisoners, with criminal kingpins at the top. Order in the camp was maintained, if necessary, by radical and brutal measures.

As political prisoners were regarded as potential troublemakers, security service officers started to collaborate with professional criminals. The latter were charged with keeping order and discipline in the camp and received certain benefits in return. This agreement remained unsigned for a long time; however, later, the authorities issued a decree authorising the use of common criminals against the so-called *enemies of the people*, i.e. political prisoners.

Criminal kingpins started to call themselves “code-bound thieves”. They formed the criminal elite of the USSR. They contributed to keeping order and exercised control over the criminal world. They developed their own code of values, in which the key principles were non-interference in politics and economy and freedom from formal employment.

After the end of the WW2, Stalin attempted to weaken the criminal elites and reduce their influence. This led to disorder and riots in forced labour camps. The authorities had to continue collaborating with criminals. Criminal kingpins were powerful and had extensive contacts with the world at large. Their main sources of income were smuggling precious metals and works of art, rogue trader extortion, drug trafficking, and plundering the produce of state-run enterprises.

In the 1980s, the destruction of Soviet power led to the spread of corruption in state structures. By the late 1980s, the police had become the most corrupt part of the state machinery. This resulted in changes in the criminal world: ethnic Russians, who cherished the traditions of code-bound thieves, opposed Caucasian groups, which sought economic and political influence and wanted to minimize the rules of the criminal world. This led to a split in the previously closely knit community. The destruction of the

state and its structures, the emergence of new countries, and the disastrous economic situation in the early 1990s resulted in the appearance of new criminal groups.

When Russia became an independent state, according to the latest data, the KGB laid off over 100,000 of its officers. Those people, with their specialized expertise and contacts, were very attractive to the criminal world.

This is the origin of modern organised crime consisting of career criminals, former KGB officers, and a vast number of corrupt officials and state property managers.

2. Criminal groups today

Criminal organisations in the CIS are still very powerful. According to the information of the Russian Ministry of Home Affairs, they have penetrated the key spheres of the economy and of industry and control the industry across whole regions. According to Vladimir Ustinov, the former General Prosecutor and current Minister of Justice, organised crime poses a real threat to national security. Along with their 'classical' activities, like drug and arms trafficking, they have become more and more involved in trade in natural resources and in the banking and financial sector.

Smuggling, tax evasion, and VAT fraud are among the most lucrative criminal schemes. However, their main sources of income are state funds, which can be siphoned off in many different ways. One of them is access to national energy and metal resources, which are purchased at domestic prices and then sold abroad at a much higher price in circumvention of export regulations. The illegally obtained profits are then laundered through the placement of public orders with bogus firms abroad.

Several large organised crime groups operate across the world. They penetrate deeper and deeper into the legal economy both in their home country and overseas. They often have their own security services and use cutting edge surveillance methods. To collect information on their competitors, they conduct partially legal intelligence operations or surveillance.

Members of organised crime groups are often well-educated, well-aware of the political situation, and maintain liaisons with the power structures of their home countries. They can work in difficult situations, are highly mobile, and have an elaborate communication network. Among their preferred methods are extortion and corruption; they have huge financial assets at their disposal. All this poses a significant threat for economically developed countries. It is generally believed that the threat consists of the immigration of a criminal economy and, more importantly, of the spread of corruption in government institutions.

3. Special services today: an FSB-sation of the country?

As in all totalitarian states, the KGB (the Soviet security service) occupied a central place among other government agencies. Although most post-Soviet countries have become freer and more open, not much has changed in this respect in Russia.

Since Vladimir Putin came to office, security services have gained much more weight. Putin himself had been an FSB officer for 17 years and was head of this organisation from 1998 until his election in 1999 [*translator's note: sic*]. After becoming President, Putin appointed his old friend, Nikolai Patrushev, as Head of the FSB and made this agency report directly to the President. The consequent series of reforms kept strengthening the influence of the FSB in the country. Border security forces and the Federal Agency for Government Communications and Information were merged with the FSB. The “anti-terrorist” military operation in Chechnya was also among the FSB’s responsibilities.

Putin went on to place at least 150 former FSB officers in key political and economic spheres, such as the President’s Administration, Presidential Representative Offices in the regions, federal customs services (which serve as bountiful sources of income), the Security Council, and other positions in the Government. The Secretary of the Permanent Committee of the Union State of Russia and Belarus, the Secretary General of the Eurasian Economic Community, and Russia’s Permanent Representative in the NATO are also connected with the FSB.

FSB agents are also involved in the economy, especially in the oil and gas sector: two Deputy Chairs and one Board member of Gazprom, Vice Presidents of *Rosneft*, *Slavneft* and *Sibur*, Board members of *Itera* and *Novatech*, as well as the CEOs and Deputy CEOs of *Sibur*. Moreover, under Putin’s presidency, large oil concerns, *Yukos* and *Sibneft*, came under the control of government-owned companies, Gazprom and Rosneft, and are under the influence of *siloviki* (the Kremlin’s powerbrokers). Some people speak of not just “state-managed democracy”, but also of a “state-managed capitalism”, implying that representatives of the security services and other government agencies pursue not just the interests of the state but their own material interests.

The FSB is closely connected with all spheres of life in the country. One wonders whether the close government oversight and state regulation in the country are explained by this strong position. In August 2006, the Russian Government, in contradiction of the Constitution, allowed the FSB and the Ministry of Home Affairs unlimited access to the databanks of telecom companies. Due to this, this security service knows who spoke to whom and for how long, the location of the participants of the conversation, etc.; i.e., they can keep surveillance on people’s private lives.

3.1. Overseas operations

Overseas, the security services of the CIS countries have switched their focus from the military to the economic sphere. The SVR (Russian Foreign Intelligence) actively and insatiably promotes the expansion of the Russian economy into Western markets. European intelligence agencies point out a strong presence and a keen interest on the part of Russian security services in business in general, and

especially in such strategic sectors as energy, telecoms, and information technologies. This is especially evident in the Baltic States and East European countries, where Russia is openly trying to restore its former hegemony.

Security service officers work overseas disguised as diplomats and officials of international organisations and also under business cover, as Russian companies abroad often serve as the platform for intelligence operations.

For instance, the major oil concern Lukoil is openly using its offices in East and Southern European countries for intelligence activities. The company seeks to recruit candidates willing to dig up information and has its own well-equipped security service. Trade partners often fail to notice or notice too late that Russian security service officers are working in these companies trying to obtain strategic information on oil purchase transactions.

The conclusion that Lukoil is connected with the security services is supported by the notes of a Polish intelligence officer. He reports that a Polish businessman backstopped a high-ranking Russian security service officer, Vladimir Alganov, when a government-owned oil refinery plant in Gdansk was being sold to Lukoil.

In addition, commissions and panels, consisting mainly of members of different security services, have been set up to promote Russian overseas business. They collect strategic information and attempt to influence important decisions.

Another increasingly popular means of collecting information is the recruiting of Russian journalists. Since around 2003, security services have also been using their agents under journalistic cover. It is almost impossible to discern agents among real journalists in this case. Besides, journalistic methods are very well suited for gaining information. In Germany, the number of security service officers disguised as journalists has apparently grown over the past years.

4. Relations between organised crime groups and security services

It has long been suspected that government agencies, including the FSB, cover up for numerous members of organised crime groups, like Semyon Mogilevich, one of the most powerful figures of Russian organised crime. He has been wanted by the FBI for fraud and money laundering since 2003; however, he enjoys safety in Russia. It is even alleged that he personally attended the Russian-Ukrainian gas negotiations. Up to the present moment, no single organised crime kingpin has been brought to justice in Russia, which can hardly be explained by unsuccessful investigation. On the contrary, this indicates that crime ringleaders are granted protection at the highest level.

It is also known that some former KGB and other security service officers make their expertise, experience, and connections available to crime groups. One may also assume that some of the former security service officers continue to supply information to their former employers. It is very difficult to

accurately establish the form and methods of their liaison, as it is never clear whether the former agents still work for security services or whether they are forced to continue this collaboration.

Most former officers occupy high positions in banks, security guarding service firms, and other large companies, which are interested in good contacts with state agencies. Such companies also attract the attention of criminal groups; therefore, they accumulate information which may be used by both sides.

Not least because of widespread corruption in their agencies and low salaries, security service officers are prepared to sell intelligence materials to be used for blackmail by political or economic interest groups.

Western agencies are inclined to believe that not only individual current or former officers of the Russian security services are involved in criminal activities, but also that this agency itself is interested in systematic relations.

There is no shortage of motives for the security services to maintain this cooperation, or at least to establish a short term, purpose-oriented union: they are interested in using organised crime groups' existing international networks of companies and contacts for their own purposes. In addition, they seek to control economic activities in general, especially those of organised crime groups. Finally, rendering services to organised crime groups or blackmailing them can yield huge profits.

The interest of organised crime groups in collaboration with security services is explained by the immunity from police investigations and prosecution that they gain from it. In addition, mafia members need information and the lifting of bureaucratic barriers, such as unhindered travel abroad. Moreover, contacts with security services may be useful for improving their public image and gaining access to key positions in the economy.

4.1 *Nordex and Seabeco*

After the collapse of the Soviet Union, there was speculation that the KGB had transferred abroad large sums from funds owned by the government and the Communist Party through private companies. Part of the money was intended for funding political activities but it was partially siphoned off for use in business. Those schemes were often handled by people with experience in foreign trade and in possession of networks of companies and contacts abroad, like Soviet citizens who, due to their ethnic or religious background, were allowed to leave the USSR in the 1970s.

At the centre of all those developments were *Nordex*, belonging to Grigory Luchansky, and *Seabeco*, belonging to Boris Birshtein.

Luchansky (born in 1945 to a Jewish family in Latvia) was recruited by the KGB and assigned to set up an international network of companies. Following that, he founded *Nordex* in 1989, with headquarters in Vienna and subsidiaries all over the world, including Switzerland. The company officially traded in raw materials from Russia and other CIS countries.

The company was implicated in corruption liaisons, fraud, money laundering, and arms trafficking on multiple occasions, until it finally became impossible for it to continue business operations. Moreover, there were several pieces of evidence that suggested that Luchansky's companies were involved in the money laundering scheme at the Bank of New York. Luchansky, who had had a criminal record even before founding *Nordex*, used his far-reaching links with politicians in Russia, Ukraine, Kazakhstan, and Israel, and his close relations with mafia members in Russia and Latvia. Not a single investigation was conducted against him in the CIS. According to open sources, he now lives in Moscow.

Boris Birshstein's *Seabeco* Group was suspected by different security services of involvement in fraud and state asset stripping. Birshstein (born in 1947), like Luchansky, is from the Baltic region and is of Jewish origin. He is an ex-KGB officer and still maintains his contacts with Russian and Israeli security services. In 1979, he immigrated to Israel and set up *Seabeco* Group, an international network of companies officially dealing in oil, gold, diamonds, and chemical products.

From 1992 to 1999, one of *Seabeco*'s subsidiaries operated in Switzerland. Like Luchansky, Birshstein was deeply involved in the politics of the ex-Soviet member states: among his friends were Kravchuk, Kuchma, and Snegur, the Moldovian ex-President. At the same time, he has equally deep connections in the criminal world.

Seabeco Group is implicated in cases of money laundering, the theft of Kyrgyz funds, non-transparent operations through *Nordex*, and theft of humanitarian aid funds. It was in close contact with the Solntsevo gang and was involved in contract killings. In the 1990s, Birshstein figured in multiple letters rogatory, but none of the investigations conducted in Canada, Belgium, and Switzerland has led to a conviction.

Neither *Nordex* nor *Seabeco* case can prove that the KGB stands behind the illicit financial operations. Even if there is evidence, those who have it have no interest in disclosing it in order to re-evaluate these events. However, both Luchansky and Birshstein maintain strong political contacts at high levels, and the speed with which they built their fortunes on dealing in public resources suggests that they could hardly have done it without the knowledge and consent of government agencies.

4.2. Present-day assumptions

The present-day assumptions relating to the collaboration between security services and criminal organisations lack convincing evidence; however, there are a number of sources indicating such systematic collaboration.

Germany has reasonably accurate information on CIS security services, as Russian troops were deployed in Germany until the mid-1990s and the security services themselves are still active there. In addition, numerous immigrants create a solid platform for intelligence and criminal activities.

It follows from the reports of the Bavarian Office for the Protection of the Constitution (a unit of the Federal Office for the Protection of the Constitution) that there are Russian businessmen in German territory who are suspected of both intelligence-related and criminal activities. They maintain contacts

with high-ranking politicians and business tycoons in Russia and economic circles in Germany. They invest mainly in real estate and tourism.

The Office assumes that the Russian security services and criminal groups assign their agents to established companies to be used chiefly for money laundering. Those agents often visit Bavaria supposedly for private purposes, with the aim of develop their economic contacts.

In 2005, the Bavarian Office for the Protection of the Constitution discovered that a group of immigrants from the CIS, who had settled in Germany and neighbouring countries, were illicitly dealing in oil and that a greater part of those people had previously occupied top positions in military and intelligence units in CIS countries.

Moreover, there is evidence that some security service officers infiltrate criminal groups in order to use them for intelligence activities.

According to the information from another German federal state, while travelling abroad, acting security service officers offer information, guard, and protection services. They have ample funds at their disposal, they purchase real estate, set up firms and, among other business activities, deal in arms. They maintain contacts among themselves, with headquarters in Moscow, and with the Russian Government, as well as with the security services of their home countries. Many of them have contacts from the elite units of the former Soviet army. According to Mark Galeotti, professor at New York University and specialist in transnational crime, criminal organisations often perform part of the SVR's work in places where this agency is limited in its capacity (e.g. Latin America). In return, the SVR assists criminal kingpins in obtaining a permit for unlimited foreign travel.

5. Situation in Switzerland

Switzerland is an attractive place for both CIS security services and criminal groups: its position in the centre of Europe, transparent borders with other countries, and well-developed infrastructure provides ideal conditions for both of these interest groups, while the level of competence of the national police and security services is not at its highest. In addition, Switzerland has a strikingly loose practice of granting visas: even identified security service officers receive a visa and accreditation, while many other NATO countries have a much more stringent policy. Visas are also granted to people who are allegedly associated with organised crime, although there are sufficient legal grounds to refuse visas and work permits to them.

Security services are interested in penetrating the numerous international organisations with headquarters in Switzerland, such as the UN, ILO, WHO, and WTO. Disguised as officials of international organisations, security service agents combine their official duties with intelligence activities. Frequent conferences and conventions create ideal conditions for making contacts with high-ranking officials from different countries and sectors of economies. Moreover, Switzerland is also an industrial and technological centre, which also attracts the interest of foreign intelligence agencies.

Their chief targets are the pharmaceutical sector, computer technologies, banking, and financial spheres.

Criminal organisations make use of the following factors: low tax rates on business; liberal regulations in the sphere of entrepreneurship; an efficient banking system with cutting edge services in private banking; high standards in the sphere of services, education, and medicine. One liberal statutory regulation allows foreign citizens to set up a business with relative ease in Switzerland. Any person without a residence permit needs to employ just one person with such a permit as manager, pay a registration fee, and have the charter capital.

The company opened in Switzerland serves as the base for business activities all over Europe and often opens up the possibility of obtaining permission to hire foreign citizens. In addition, through such companies, foreign citizens buy real estate without following the regulations on the purchase of plots of land with property.

5.1. The operations of security services in Switzerland

Switzerland is in the focus of attention of Russian security services. This is clear from their strong station in this country and the high ranks of officers working there. Russia has the second highest number of staff at its Swiss station (after Germany) among West European countries. Russia's legitimate stations employ officers of the SVR and the GRU (Russian Military Intelligence) under diplomatic cover (the Embassy and Trade Mission in Bern, the Consulates General in Geneva and Bern, the Permanent Mission of the Russian Federation at the UN in Geneva) and under cover as employees of those international organisations.

Approximately 75% of Russian security service officers work in Geneva, which is the hub of international organisation headquarters. This leads to the conclusion that the strong presence of Russian security service officers is explained not just by Swiss target objects but also the international organisations based in Switzerland.

There are indications that the FSB, which is charged with fighting terrorism, organised crime, and nuclear proliferation overseas, is also active in Switzerland. It is useful to highlight in this regard that the Russian President's Decrees as of November 23, 1994, and April 3, 1995, entitle the FSB to use foreign companies for intelligence purposes. On the basis of those decrees, the FSB has expanded its activities and is already competing with the SVR in such spheres as combatting organised crime. Like other security officers, FSB agents work undercover as diplomats in official missions and businessmen in private companies.

SVR agents also work in Switzerland under business cover. They are dispatched to work for a few years in joint ventures or large Western companies, mainly in the oil, transport, or finance sectors. Some of those officers previously worked under traditional diplomatic cover.

In general, it can be established that, by collaborating with private companies, security services increase their influence and at the same time use their intelligence contacts in other countries. This can be demonstrated through the case of *Nord Stream*, a company set up in Zug in 2005. The mission of the

company is to provide for the design, construction, and exploitation of gas pipelines in North Europe to transport Russian gas directly to Germany.

51% of the company belongs to *Gazprom*; 20% to the German concerns, *Wintershall AG* and *E.ON AG*; and another 9% to *Nederlandse Gasunie*. One of the board members of *Nord Stream* is a Zug lawyer, Urs Hausheer. According to information from open sources, from 1987 to 1990 he was a board member of *Asada AG*, which had been in charge of procurement for the GDR Ministry of State Security in circumvention of Co-Com restrictions. We believe that Vladimir Putin came into contact with Hausheer when he was working in Dresden. The *Nord Stream* CEO is Matias Warning, a German national. He was a Stasi major and, according to unproved information, also was in contact with Putin in Dresden. At present, Warning is Head of the Russian office of Dresdner Bank, an important business partner of *Gazprom*.

5.2. The activities of organised crime groups in Switzerland

The chief occupation of criminal groups from the CIS in Switzerland is money laundering. They have agents who set up companies in Switzerland to conduct illicit business operations and launder money. Most of them have strong contacts in the business milieu and with the state agencies of their countries of origin. An illicit business is often disguised as a legitimate one, and profits are gained through overpricing, bogus loans and interest payment on such loans, and false expense accounts. Another popular fraudulent scheme is obtaining subsidies for interim transactions, mainly in the oil and gas sector. The fuel is bought at subsidised internal prices and sold at a world market price (transfer subsidies).

Their main aim is to transfer the illicitly obtained money (often siphoned off from the state budget) to private bank accounts in Western banks. These are chiefly the funds stolen from the state through theft and fraud. The income from trafficking (in drugs and weapons) is also laundered through these channels.

There are around 700 firms in Switzerland controlled by Russians or with Russian nationals on the board. 60% of these firms are based in the German-speaking part of Switzerland, and another 34% in the western part of the country. According to the estimation of the Russian tax authorities, approximately 15% of all Russian funds overseas are deposited in Switzerland. In 2004, the capital outflow from Russia amounted to \$8 billion; experts believe that 40% of this amount has been obtained illegally. It is easy to calculate that the Swiss part of the recently outflowed capital amounts to a lump sum.

Members of criminal groups from CIS countries have invested in Swiss real estate, mainly near Lake Geneva and in the canton of Ticino. Such transactions are often made in the name of legal entities, which makes the identity of the true owner difficult or impossible to establish.

As for the investment in the Swiss economy, there is alarming evidence that members of criminal groups from the CIS have purchased shares in strategic companies or have penetrated into the boards of

such companies. Members of criminal groups often pretend to be serious businessmen with extended political contacts and find a cover in traditional, reputable companies. However, they do not change their methods of conducting business: they continue to use their contacts and corruption, as they did in their home countries.

5.3. Cooperation between security services and organised crime groups in Switzerland

The situation in Switzerland is the same as that described above. There is no direct evidence of the collaboration between security services and organised crime groups. However, there are numerous private persons and companies that maintain connections with both security services and organised crime.

Do organised crime groups launder money through intelligence agencies?

The following examples indicate that money is laundered in Switzerland through persons maintaining contact with both organised crime groups and Russian security services.

- R., a Russian national [Translator's note: here and in the other examples, the initials do not correspond with the actual initials of the person] and supposedly a Russian Military Intelligence officer, in possession of ample financial means, worked for company F. in Switzerland from 2001 to 2003. The company has entered into business relations with Nordex and maintains constant contact with organised crime.
- E., a Russian national and security service officer, was closely associated with a company in the canton of Zurich, which has been under investigation for fraud and embezzlement since 2002. The company was liquidated upon the decree of the Swiss Federal Banking Commission in the autumn of 2002 for unlicensed financial operations. The company had been engaged in opaque currency dealings in its Moscow office with an offshore bank, which had lost tens of thousands of dollars to a greater part of its clients. There is some evidence that this company has been used to launder large sums of dirty money. B.E. has a criminal record and maintains contact with the Solntsevo gang. In 2004 he was appointed as Representative of Chechnya at the Federation Council, which allows him to travel with a diplomatic passport. He maintains business relations with other Swiss companies [*Translator's note: the authors mean Umar Dzhabrailov*].
- From 1993 until its bankruptcy in 1998, the Russian bank, D., had an office in Geneva. The bank had been established using KGB capital and, by the early 1990s, it had become one of the few financial institutions to be licensed by the Central Bank to deal in hard currency. Numerous representatives of this bank and its subsidiaries in Western Europe were associated with the KGB and were in contact with security officers while working overseas. The CEO of the Swiss office is also a Russian Military Intelligence officer and keeps regular contact with Russian security services in Switzerland.

The head of the Moscow subsidiary of Bank D was in contact with *Nordex* and other companies and persons of this milieu. Numerous sources testify that bank D served to launder the money of organised crime. Open data also reveals the fact that in the mid-1990s the bank came under the control of Semyon Mogilevich. The bank maintains an extensive network across the globe, including the Bank of New York, which was at the centre of money laundering scandals in the late 1990s. The bank was also in contact with members of organised crime groups and with Mr Z.B., who is apparently associated with the Solntsevo gang. Z.B. was suspected of being head of an organisation engaged in international prostitution. Besides, he is openly associated with the Russian Military Intelligence and maintains his contacts with other Russian intelligence agencies abroad.

- In 1995, bank D. co-founded its subsidiary, A., in Zurich. This company had a charter capital of 2.5 million SwF and was liquidated in 1999. It was involved in cocaine trafficking, in particular, in transferring a large batch of this drug from Columbia to Florida. One of the board members and later the board Chair of this company was H.O. He maintained liaison with Russian security services and was aware of the disappearance of a large part of the Russian gold and currency reserve. Since 1994, he has been head of company C., which at present is based at a new address belonging to a private person and engages in in trade, export, and import of a variety of goods. H.O. has been granted Swiss citizenship. One of his relatives is in direct contact with Grigory Luchansky, the founder of *Nordex*.
- Another bank registered in Switzerland and linked with both organised crime and intelligence agencies is bank K., formerly owned by a Russian national. This bank had two subsidiaries in Switzerland, both of which were managed by company M., with headquarters in Switzerland. Company M. was involved in one of the money laundering episodes at the Bank of New York. This business network in Switzerland included another five companies registered at the same addresses. From 1997 to 2001, a suspected intelligence officer, V.P., became a member of the boards of four of those companies and became president of one of them. Two Swiss lawyers who represented the interests of this group had previously been involved in money laundering cases, in particular, in the Lazarenko case.
- It should also be mentioned that another Swiss lawyer working for the numerous *Nordex* subsidiaries in Switzerland is associated with those companies. At present, this group has a different name and is represented by a Geneva lawyer.
- Ample evidence of liaison between organised crime groups and intelligence agencies can be found in the case of the ex-Russian citizen, R.D., who resided in Switzerland and was granted Swiss citizenship in 2005. From 1992 to 1997 he worked for the trade mission; intelligence agencies of several countries suspected him of working for Russian secret services. In 1994, he became President of the Swiss office of the Russian company, B., which, according to open data, was under strong influence from criminal groups and had embezzled the money of several official missions. In 2002, Russia launched a probe into this embezzlement case involving several suspects.

Some evidence suggests that R.D. was involved in prostitution business. Apparently, he invested one million SwF in the renovation of nightclubs. According to a police probe, a subsidiary of tour operator

B headed by a Russian national is also involved in this case. The tour operator also provides for the entry of prostitutes into the country. The head of the company, a woman, is linked with the Russian Embassy in Bern. A board member of this company is T.K., a Swiss national, who collaborates with other companies linked with the Russian intelligence agencies.

T.K. was also associated with company B. from the very start and served on its board. In addition, he is a board member of another company which was suspected of providing channels for weapon-trafficking in Libya. A search of T.K.'s house revealed that the latter had provided premises for this company to R.D., a Russian national.

Do intelligence agents infiltrate organised crime groups?

The following example demonstrates a possible way in which intelligence agencies come into possession of firms that were previously controlled by organised crime groups.

In January 1996, near Geneva, company U was set up to sell and transport fertiliser. The president of this company was F.P., a Russian national [*Translator's note: Vyacheslav Moshe Kantor*]. The same person was president of another company, Y. (FIMOCHIM SA), which had a very similar business pattern and was also engaged in selling and transporting chemical products. According to information from Russia, F.P. was involved in a contract murder and is associated with several organised crime groups. According to the intelligence data from one of the European countries, the mother firm, Y, registered in Perm, Russia, is controlled by a criminal group from this city. In 2001, Russia launched a probe into concealment of property and tax evasion by the founder of this firm.

Company U. changed its title in 1999, and F.P. left the top position in it but continued to serve on its board with the authority to sign on behalf of two board members. By 2000, F.P. had lost his signature authority. Three years later, the firm made another change to its name and orientation; this time it started dealing in sailing and flying vehicles.

In February 2004, the company changed its name once again and engaged in scientific research and services in the sphere of biotechnologies and pharmaceuticals, and started to operate, coordinate, and control laboratories in Switzerland and other countries. In August 2004, four new members came to serve on its board. In December 2004, the company kept regular contact with C.R., the First Secretary of the Russian Embassy in Paris, whom the French police suspected of being an SVR officer. From January 2006, C.R. lived in Geneva and was president of company U. F.P. was officially struck off the list of directors but he is still its chief shareholder and, apparently, one of its employees.

The exact details of the numerous backstage reshuffles in this company are unknown. However, there is a piece of evidence suggesting that this company is controlled by the SVR. The search held at the Russian office could have been perceived as an instrument of pressure on the company to make it collaborate with the intelligence agencies. Obviously, the companies in Switzerland also serve legitimate business purposes and perform legitimate operations.

Did the security officers resign or were they dismissed?

The cases below cover the alleged money laundering episodes implicating persons associated with both organised crime and intelligence agencies. The consequent intervention by the Moscow police suggests that those people did not act according to the assignment from the intelligence agencies. One may only speculate as to the reasons for this: either the suspects exceeded the limits of allowed profiteering or their concept of Western justice suggested that another liaison with intelligence agencies was disadvantageous. In this respect, it should be taken into account that police operations, queries to Interpol, and letters rogatory may also be intended to officially demonstrate that the state agencies have nothing to do with those offences, and they do not necessarily lead to actual criminal prosecution.

- In 1994, an alleged intelligence officer, O.M. [*Translator's note: the authors mean Vitaly Kirillov, who co-founded the Russian Cultural Initiative Foundation in Geneva in alliance with Rev. Viktor Pyankov*], settled in Switzerland and started working as CEO of oil company, N. Later he established the Foundation, which had the Russian Orthodox Church among its donors. In 1997, the Russian Prime Minister, Viktor Chernomyrdin, mandated O.M. to repay Russia's debts to third countries. O.M. was also assigned to deposit Chernomyrdin's money in Switzerland. Apparently, he was backstopped by the Russian Consul in Switzerland, who was an identified agent of Russian Military Intelligence.

At the time, O.M. owned a concern in Moscow comprising oil trade and insurance companies and banks, among which was the above-mentioned company, N. This concern [*Translator's note: MES (International Economic Cooperation CJSC) sold 7.7 million tons of oil abroad (around 8.5% of the total Russian export of oil and petrochemicals). Its annual turnover amounted to \$1 billion. In 1996, following the Governmental Order 51-r as of January 16, 1996, MES received 4,500,000 tons of oil to be sold abroad. This company also participated in the programme of repaying the debts of the Soviet Union*], 40% of which, apparently, belonged to the Moscow Patriarchate, was assigned by Viktor Chernomyrdin to sell 4.5 million tons of oil and use the earnings to finance the reconstruction of the Kremlin. Apparently, O.A. stole part of those earnings.

In 1998, the police searched the company's offices in Geneva, Italy, and Germany as part of their investigation into O.M.'s involvement in money laundering schemes. Apparently, the Italian firms that were in contact with O.M. were involved in drug trafficking with drug cartels in Latin America. In 2001, the Moscow Office of Interpol conveyed its suspicion that O.M. was involved in a fraud scheme. In 2003, Russia and Switzerland exchanged letters rogatory. In late 2002, according to the data available, O.M. left Switzerland and fled from justice. His Swiss companies and the Foundation were liquidated. O.M. maintains extensive contacts with top members of Russian organised crime groups.

- In January 2005, a Russian and Israeli national, E.M., had his documents checked while crossing the French-Swiss border. E.M., who lived in France with his wife, often visited Switzerland, where he was President of company Q., which he had founded in 1991 (removed from the Companies Register in 1997). E.M. was suspected of being a Russian Military Intelligence officer and was in contact with a woman who worked for intelligence agencies. In 2000, a pre-investigation probe was held in Geneva into the involvement of both these people in

money laundering schemes. E.M.'s wife purchased property in France worth 50 million FF and was found to have acted as an agent in a money laundering episode.

According to information from Russia, E.M. is a career criminal and a co-founder of the Lipetskaya gang, a part of the Solntsevo gang. In 2005, he entered Switzerland in a car belonging to a Swiss company. He maintained that he had no stake in that company but had had business negotiations with it. The manager of this company was his business partner, I.B., who also had a money laundering crime case initiated against him in Geneva. E.M. and I.B. had numerous business bank accounts with Geneva banks, through which large amounts of money were transferred to private accounts.

These are just a few examples demonstrating that networks of intelligence agencies and organised crime do exist and operate in Swiss territory. In general, it can only be stated that the alleged and identified intelligence agents visit Switzerland several times a year with business purposes.

6. Counter-measures

Digging up information on organised crime is outside the competence of the Service for Analysis and Prevention. In addition, it is extremely difficult to reveal the relations between organised crime and intelligence agencies. However, the fact that many businesses are controlled by organised crime poses a threat to the internal security of Switzerland. This threat is not alleviated by the fact that some companies are found to be being used for intelligence purposes, as this affects such strategic sectors as energy and the nuclear sector.

Further monitoring of the current situation is warranted. In view of the limited information input, additional resources for analysis are required.

In particular, it is necessary to provide:

- Accurate coordination and information exchange on the operations of both intelligence and organised crime;
- Accurate analysis of the investigation reports of the Federal Intelligence Service of Switzerland and the exchange of information with them;
- The updating of this analytical report.

Both organised crime groups and intelligence agencies are involved in transborder operations. Switzerland is the hub for international organisations and has a high concentration of security services, which makes it an ideal platform for transnational operations. Exchange with other security services is important for crime prevention; therefore, such exchange should be continued and expanded.

In many of the currently investigated criminal cases of organised crime groups from CIS, the chief offense is money laundering. To prove money laundering in Switzerland, it is necessary to have a

proven previously committed offense in the suspect's country of origin. Sometimes it takes a long time to receive such evidence from those countries. After it has been established that a criminal network consisting of lawyers, agents, and other persons is operating in Switzerland, this Swiss network should be examined to determine whether it is linked to organised crime and intelligence agencies. This analysis will probably set the ground for initiating a criminal investigation.

In cases when criminal proceedings involve foreign citizens, further clarification of the context is warranted.

[Translation from German into Russian and Translator's notes by Anastasia Kirilenko]