

104
**RUSSIAN ORGANIZED CRIME IN THE
UNITED STATES**

Y 4. G 74/9: S. HRG. 104-604

Russian Organized Crime in the Unit...

HEARING
BEFORE THE
PERMANENT
SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS
SECOND SESSION

MAY 15, 1996

Printed for the use of the Committee on Governmental Affairs



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RUSSIAN ORGANIZED CRIME IN THE UNITED STATES

WEDNESDAY, MAY 15, 1996

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:40 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Subcommittee, presiding.

Present: Senators Roth, Cohen, Nunn, Lieberman and Dorgan.

Staff Present: Harold Damelin, Chief Counsel and Staff Director; Daniel S. Gelber, Minority Chief Counsel; Eric Thorson, Chief Investigator; Stephen H. Levin, Senior Counsel; Michael Bopp, Counsel; Carla J. Martin, Chief Clerk; Ariadne Allan, Investigator; Sal-lie B. Cribbs, Executive Assistant; Jack Cobb, Counsel; Deborah McMahon, Investigator; Susanne Routhier, Librarian; Mary Ailes, Staff Assistant; Alan Edelman, Counsel to the Minority; Rick Keenan, Detailee; Ian Brzezinski (Senator Roth); Susie Cohen (Senator Roth); Verna Hensley (Senator Roth); Rick Valentine (Senator Smith); Jeremy Bates (Senator Dorgan); Sandra Bruce (Senator Levin); Nina Bang-Jensen (Senator Lieberman); and Helen Albert (Senator Cohen).

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. The Subcommittee will please come to order.

This morning, the Permanent Subcommittee on Investigations continues to fulfill its mandate of presenting to Congress and to the American people the changing face of organized crime in the United States. Today we will examine the currently emerging threat posed by Russian organized crime here in America.

Over its long history, this Subcommittee has been at the forefront of exposing the dangers posed by organized crime groups operating within our borders, including Colombian and Asian criminal organizations. We found that the spotlight of exposure and the glare of public scrutiny are among our most effective weapons against these resourceful and resilient groups, which operate most effectively in the netherworld of secrecy, fear and intimidation.

We can be particularly effective if we can expose an organized group in its early stages, and that is why we are here today. Through experience, we know how hard it is to dislodge any criminal group once it has become entrenched in legitimate businesses and its members assimilated into American communities.

It may be useful to begin with a short geography lesson. When we used the term "Russian organized crime" in the course of this hearing, we are referring to organized crime from all the republics of the former Soviet Union, not only from the Republic of Russia. We realize the limitations of this definition but have chosen to use this phrase because of its widespread recognition and acceptance.

I also want to make clear that the vast majority of former Soviet citizens currently residing in America are law-abiding, hard-working and extremely productive members of our society. In fact, these are the people who are most often the victims of this criminal activity. Like most other international organized crime groups, those from the former Soviet Union start out by preying primarily on their own ethnic communities in the United States.

The fact that former Soviet emigres to this country suffer disproportionately at the hands of criminals who are their former countrymen leads, unfortunately, to an often unspoken but nevertheless widely held point of view, namely, that because former Soviet citizens are most often the victims of these crimes, the rest of us need not concern ourselves with this problem.

I categorically reject that view. First, all residents of our Nation are entitled to protection no matter what their backgrounds. Second, if we have learned anything from our previous investigations, it is that all organized criminals, whatever their ethnic origin, eventually extend their greedy tentacles beyond their native communities into American society as a whole in a never-ending reach for more money, power and influence.

Russian organized crime presents a textbook example of what I have referred to as "the new international criminals"; they are a breed set apart from traditional organized crime. Despite having roots that can be traced back to earlier times, criminals from the former Soviet Union have thrived by adapting to and exploiting modern technology. They have created global communication networks through the use of satellite telephones, cellular clone phones and encrypted fax machines.

Combined with relaxed travel restrictions and a greatly increased volume of international trade, these developments have allowed criminal organizations based in one country to extend their operations throughout the world. Russian organized crime in particular conducts complex fraud schemes, traffics in narcotics, practices extortion, and even commits murder without regard to international borders.

And in this country, Russian organized crime has undergone a profound transformation over time. In the 1970's and 1980's, the Russians who came to the United States were predominantly religious refugees and those posing as such in order to gain entry. The criminal ways some of these Russians followed once they arrived largely involved white collar offenses such as fuel tax and insurance fraud schemes.

The breakup of the former Soviet Union resulted in a new wave of emigres which, as we will hear today, includes hardened criminals more prone to violence. It also includes criminals who operate with others across oceans and borders. Following modern international business practices, Russian organized crime is forming working relationships with other international organized groups.

For example, working with Asian organized crime groups, Russian criminals are smuggling heroin, which is relatively cheap and plentiful in the former Soviet Union, to the United States. Likewise, working with Colombian drug traffickers, Russian organized crime is brokering deals in the United States to ship Colombian cocaine to Europe and the former Soviet Union, where it is expensive and hard to come by—your classic win-win deals for both parties.

Russian hit men, unknown to American law enforcement, are suspected of traveling to the United States to do contract killings and then disappearing after the job is done. Money made from illegal enterprises in the former Soviet Union is easily moved out of the country and laundered throughout the world to conceal its criminal origins.

Organized crime clearly has become an international problem, and Russian organized crime is the latest example. No longer can we think of this as a domestic problem that any single Nation is capable of solving on its own. International problems require international solutions. For too long, the international borders that these criminals routinely ignore have served as obstacles for law enforcement. We must work together as nations to overcome these obstacles instead of allowing criminals to use them as gateways to freedom.

Imagine Bonnie and Clyde gone international—because that is exactly what is happening. In the 1920's, bank robbers figured out that by using automobiles to rob banks, then quickly crossing State lines, they could evade the jurisdiction of State and local law enforcement. It was no wonder that a rash of interstate bank robberies soon followed. We eventually solved this problem by enacting a Federal bank robbery statute.

Solutions to the problems posed by Russian and other new international criminal groups are neither as obvious nor as easily enforceable. No single international law enforcement agency exists to assume jurisdiction. And while law enforcement agencies have made great strides and established formal, bilateral cooperative agreements and informal working relationships, there remains much to be done to enable law enforcement throughout the world to obtain information, locate documents, accomplish service of process, and extradite criminals.

Further, there are still nations that effectively serve as sanctuaries for these new international criminals. We must work to eliminate any safe haven where these criminals can hide.

Today we will hearing a comprehensive overview from the Customs Service, FBI, and the Internal Revenue Service regarding Russian criminal activity in the United States. In addition, we are privileged to hear from an official from the Russian Interior Ministry who will discuss the steps taken by both of our nations' law enforcement agencies to facilitate increased cooperation on this issue.

We will hear from insider witnesses who will give us unique perspectives on the nature of Russian criminal activity in the United States as well as its interaction here with traditional organized crime.

Finally, we will hear today from those who are our first line of defense in dealing with this and all of our organized crime prob-

lems, our Nation's local police officers. These officers all serve in areas beset by criminals from the former Soviet Union and will give us the benefit of their firsthand experience in dealing with this threat.

One of the reasons why this Subcommittee has been able to conduct these complex investigations so effectively is our ability to work together without regard to partisan politics. Today's hearing is no exception. It is the product of a joint investigation conducted by the majority and minority staffs working together on this most important issue.

[The prepared statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR ROTH

The Subcommittee will come to order.

This morning, the Permanent Subcommittee on Investigations continues to fulfill its mandate of presenting to the Congress and to the American people the changing face of organized crime in the United States. Today, we will examine the currently emerging threat posed by Russian organized crime here in America.

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I also want to make clear that the vast majority of former Soviet citizens currently residing in America are law-abiding, hard-working and extremely productive members of society. In fact, these are the people who are most often the victims of this criminal activity since, like most other international organized crime groups, those from the former Soviet Union start out by preying primarily on their own ethnic communities in the United States.

The fact that former Soviet emigres to this country suffer disproportionately at the hands of criminals who are their former countrymen leads, unfortunately, to an often unspoken, but nevertheless widely held view that, because former Soviet citizens are most often the victims of these crimes, the rest of us need not concern ourselves with this problem. I categorically reject that view.

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In this country, Russian organized crime has undergone a profound transformation over time. In the 1980's, Russians emigres who came to the United States were predominantly religious refugees and those posing as such in order to gain entry. The criminal ways some of these Russians followed once they arrived largely

involved "white collar" offenses such as fuel tax and insurance fraud schemes. The break-up of the former Soviet Union resulted in a new wave of immigrants, which, as we will hear today, includes hardened criminals, more prone to violence. It also includes criminals who operate with others across oceans and borders.

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No single international law enforcement agency exists to assume jurisdiction. While law enforcement agencies have made great strides and established formal, bilateral, cooperative agreements and informal working relationships, there remains much to be done to enable law enforcement throughout the world to obtain information, locate documents and accomplish service of process. Further, there are still nations that effectively serve as sanctuaries for these new international criminals. We must work to eliminate any safe haven where these criminals can hide.

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We will also hear from insider witnesses who will give us unique perspectives on the nature of Russian criminal activity in the United States, as well as its interaction here with traditional organized crime.

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One of the reasons why this Subcommittee has been able to conduct these complex investigations so effectively is our ability to work together without regard to partisan politics. Today's hearing is the product of a joint investigation conducted by the Majority and Minority staffs working together on this most important problem. I would like to commend my colleague, Senator Nunn, the Subcommittee's Ranking Member, and his staff for their cooperation in conducting this investigation. In spite of the many organized crime hearings we have done together, there always seems to be a new group emerging that requires the Subcommittee's attention.

The demise of the Cold War did not spark the first flickers of Russian organized crime. But it created unprecedented opportunities to fuel its growth. The expansion of Russian organized crime in the United States poses challenges we ignore at our peril. We cannot allow our past successes against traditional organized crime to lead to complacency in dealing with these new international criminals. For, although the faces change, the threat remains the same.

Senator ROTH. I would now like to call on my friend and colleague, the distinguished Senator from Connecticut.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman.

As you know, Senator Nunn will be here shortly; he is attending a funeral this morning, and I know he would want to second, and undoubtedly will, the nonpartisan way in which this Permanent Subcommittee on Investigations has gone forward with its work, and I thank you for that. As you said at the beginning of your statement, this Subcommittee has played an historic role in America in focusing public attention on organized crime at the various stages of its evolution, and it is in that sense that this hearing this morning I think is particularly important and will be helpful to the Congress, to the American people and to law enforcement agencies throughout our country.

As your statement indicated, the new face of organized crime, which in this case is covered by the generic term, "Russian organized crime," is a combination of the worst of the old and the worst of the new in the sense that this new generation of organized criminals is as capable as any of their predecessors of employing the worst forms of violence and brutality and of preying on people's weaknesses and terrorizing people through force. But it is the worst application of the new in the sense that it employs most of the instruments of the new technological information age to achieve its evil purposes. And one of those capacities which is greater than existed for old organized crime is the ability to very quickly and effectively operate internationally, with all the implications that has.

Clearly, one of the implications that worries many of us—and it is not conventional organized activity—is the extent to which organized criminal groups including the Russian groups may conduct activities that spill over into not just our concern about domestic security, which is to say law and order, security from crime here at home, but the extent to which they may spill over into international security, and particularly on the question of whether they are involved at all or there is a danger that they will be involved in the smuggling or misappropriation of weapons of mass destruction that may be in the possession of the Russian Government today.

This is a very important hearing, and you have assembled an extraordinarily impressive and relevant group of witnesses. I thank you, Mr. Chairman, for your great leadership in this effort, and I look forward to the hearing today.

Senator ROTH. Thank you, Senator Lieberman.

It is now my pleasure to call on my good friend, Senator Cohen.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Thank you, Mr. Chairman. You gave a very comprehensive opening statement, and I will not try to improve upon that, other than asking permission to insert my full statement in the record, and I will just make a few comments.

The Chairman has talked about the increased violence that is taking place on the part of criminal gangs operating in the former

Soviet Union, but who now also operate gangland fashion here in the United States. One issue that we certainly have to be concerned with is the level of violence that these groups will engage in to intimidate and extort and simply instill an overwhelming sense of fear on the part of both American citizens and non-American residents here in the United States. That is one aspect that we have to be very concerned about.

As the Chairman has indicated, however, gang activity has moved into the white collar criminal aspects as well. When we talk about white collar crime, we tend to think that this is really only a question of money. What I would like to say this morning, Mr. Chairman, is that it is not only your money, but it is your life in some particular cases.

By way of example, this Subcommittee in cooperation with the Senate Aging Committee has been conducting investigations into health care fraud, and we have worked very closely with the FBI to develop legislation that will help combat health care fraud. One case comes to mind—and we had the FBI testify about this situation—where two brothers from Lithuania set up what we call a “rolling lab” in Southern California, and this “rolling lab” scheme operated across the country in areas like St. Louis, Chicago, Florida, as well as Southern California.

They would send out inducements for local residents to come by and have a medical examination at no cost, or at a greatly reduced cost. What happened as a result of this “rolling lab,” which was performing tests in unsanitary and unsafe conditions, is that they were leading those who were having the tests performed to believe they were being performed by adequate, competent medical personnel. However, certain symptoms which were diagnosed were never followed up on, so those unsuspecting individuals who were coming forward to go into this “rolling lab” were under the impression, if no negative results came back, that they were in perfect health, which was not the case. So, in a number of cases, individuals who had serious problems went completely untreated.

The converse was also true, that some individuals who were completely healthy had reports filed indicating that they were suffering from serious diseases which caused their insurance companies to cancel their insurance even though they were in perfect health.

So we had a situation in which \$1 billion was extracted from our health insurance companies as such, with one company having to operate in the red for a period of 2 years as a result of this type of activity.

So it is not only your money that is being extorted or taken; it could be your life, as a result of these organized crime activities.

So Mr. Chairman, as you pointed out, they are very complicated, they are very sophisticated, and the face of evil wears many disguises. I am not sure in what stage the Russian organized crime activities in this country are at—it could be the larval stage, or it might be much more evolved as far as its establishment, taking root in this country in cooperation, as the Chairman said, with other organized criminal groups. But they now have woven a web of international proportions and dimensions which may be far more evolved than we have any notion of right now.

So I look forward to the testimony, Mr. Chairman, and I want to commend the Subcommittee staff in particular for the enormous amount of work that they have done to prepare for this hearing.

Senator ROTH. Thank you, Senator Cohen, and I would just like to publicly acknowledge what an outstanding job you have done in the area of medical fraud in developing legislation to address it. I have been pleased to work with you on that critically important matter.

I would say to all of our witnesses that we will, of course, enter your full statements into the record, as we will do in the case of your opening statement, Senator Cohen.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR COHEN

Mr. Chairman, I am pleased to participate in today's hearing on the rise of Russian organized crime in the United States and I would like to commend you and the ranking member, Senator Nunn, for your longstanding, bipartisan efforts to investigate organized crime here in the United States and around the world.

As I stated 2 years ago at another PSI hearing on international organized crime, a battle is being waged on the streets of St. Petersburg, Moscow, Warsaw and Kiev between the rule of law and the rule of the gun. President Yeltsin said that organized crime threatened the foundation of Russian society. Because of the increase in shootouts among rival gangs over dividing the spoils, Moscow had been compared to Chicago during prohibition. Unfortunately, as we will hear today, gangland shootings are on the rise not only there but on our streets as well.

There now is evidence that criminal operatives from Russia and from the other former Soviet republics have come to the United States. Presently, Russian/Eurasian criminal groups are engaged in a myriad of criminal activities here in the U.S. including: fuel tax fraud, medical and insurance fraud, staged automobile accidents, extortion, loan sharking, drug trafficking, credit card forgery, counterfeiting, auto theft, prostitution and murder.

As the author of the enhanced health care anti-fraud penalty provisions that passed in Budget Reconciliation last year, and which are now pending in the Kassebaum/Kennedy health insurance reform bill, I have been particularly active in investigating health care fraud in the U.S. Federal and State programs, and in private health care plans. One of the most pernicious medical fraud schemes uncovered in recent times involved a scam referred to as the "rolling lab" case. Two brothers, Michael and David Smushkevich, who were emigres from Lithuania and who were part of Russian organized crime, created a fraud ring which ran mobile diagnostic testing labs and clinics in Southern California, St. Louis, Chicago, and Florida. This scheme defrauded private and government health insurers of approximately \$1 billion.

Patients were lured to clinics or sites serviced by mobile vans for comprehensive physical examinations with bogus claims of "state of the art" testing offered "free of charge" or at a nominal cost to the patient. Billings for nonexistent services, falsely inflated billings, or billings for unnecessary services provided the basis of the scheme.

The impact of this scheme was so drastic that one insurer operated in the red for two consecutive years as a result of the fraudulent claims. Moreover, the health of patients was jeopardized by the slipshod examinations and failure to obtain proper medical histories. These scam artists did not properly follow up on abnormal symptoms and test results, leaving those patients who actually suffered from serious medical problems with a false sense of security. The perpetrators often administered tests under unsafe conditions, performing cardiac stress tests without proper resuscitation equipment and, at times, without a doctor present.

Some patients even had their health coverage jeopardized when their insurers received medical claims falsely reporting that the patient suffered from serious "pre-existing medical conditions" that, in fact, did not exist at all. Legitimate medical providers were also damaged when the perpetrators stole their taxpayer identification numbers for use in submitting claims.

The rolling lab case is not an isolated example. The health care system is built on a foundation of trust and therefore can be easy to defraud. An investigation of health care fraud that I have conducted through the Special Committee on Aging identified cases of Russian criminals going into their own communities to induce Medicaid recipients with gifts such as angora undergarments and television sets in

order to obtain the use of their cards for the purpose of billing unnecessary supplies to insurance carriers.

Our investigation also identified staged accident rings in which phony medical clinics have been set up in order to submit false claims for unnecessary treatments. In some instances, phony law firms using figurehead attorneys have been set up to further this scheme.

As Russian organized crime groups have become more active in the United States, incidents of violence related to their operations here have become more frequent. For example, according to the FBI, in 1993 the body of a former Soviet from Odessa was found with multiple shot wounds in the head. He had been the president of a purported brokerage firm specializing in the exporting of American goods to Russia. In actuality, he was suspected of being a high-ranking organized crime figure who had been the target of two earlier murder attempts the year before.

In another case, the body of a Russian emigre was found at JFK airport in New York. This individual had been kidnapped in Brooklyn the month before. He had allegedly been involved in fraud activities and had been shot in the head four times. Another violent incident involved the shooting of a Russian in a wholesale gasoline company in the Sheepshead Bay area of Brooklyn. He was shot multiple times by a man using a submachine gun. This Russian casualty had previously been indicted on charges relating to the use of fraudulent credit cards.

Although some will argue that we are only witnessing the early stages of a criminal enterprise, it is clear that Russian/Eurasian organized crime is on the rise in both white collar crimes and violent acts. Some in law enforcement believe that they will eventually compare equally to more traditional organized crime groups, such as Italian criminal groups and Colombian trafficking organizations, in terms of international capabilities. As we will hear from today's witnesses, unlike these better-established criminal groups, who are primarily involved in drug trafficking and related money laundering in the United States, the Russian criminal enterprises are heavily involved in a wide range of fraud and economic crime in the United States.

In conclusion, I stated almost 2 years ago that failure to cooperate on an international level would have dire consequences. We in the United States and western Europe would be faced with the consequences of a failure to address the criminal situation in Russia as their operations would spread further to our shores. As we will hear today, unfortunately that is no longer just a statement of warning since Russian crime has not only arrived at our shores but is spreading across our entire country. I look forward to hearing today's testimony.

Senator ROTH. We do have a lot of witnesses here to testify today, so it would be appreciated if each of you would summarize your written testimony in approximately 10 minutes to allow time for questions and answers.

Our first witnesses are a panel of American and Russian law enforcement officials. We are very pleased to welcome the Commissioner of the U.S. Customs Service, George Weise; Jim E. Moody, Deputy Assistant Director of the Criminal Investigative Division of the Federal Bureau of Investigations; Edward Federico, Director of Criminal Investigations of the National Operations Division of the Internal Revenue Service; and finally, we are particularly pleased to welcome Igor Kozhevnikov, who is Deputy Minister of the Russian Ministry of Interior Affairs.

Mr. Minister, I want to extend the Subcommittee's welcome and appreciation for your appearing before us this morning.

For everyone's convenience, we have simultaneous interpretation equipment available for the Minister's testimony. Channel 1 on the handset will be broadcast in English, and Channel 2 will be broadcast in Russian.

Now, I would say to our witnesses it is the practice that we swear in all witnesses who appear before the Subcommittee, so I would ask that each of you rise and raise your right hand.

Do you swear or affirm that the testimony you will give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. WEISE. I do.

Mr. MOODY. I do.

Mr. FEDERICO. I do.

Mr. KOZHEVNIKOV. Yes.

Senator ROTH. Thank you, and please be seated.

We will begin with the testimony of Commissioner Weise.

Commissioner Weise?

**TESTIMONY OF GEORGE J. WEISE,¹ COMMISSIONER, U.S.
CUSTOMS SERVICE**

Mr. WEISE. Thank you, Mr. Chairman, and good morning to all of you. It is a real pleasure to be here this morning to have an opportunity to thank this Subcommittee for the continuing support you have provided to the U.S. Customs Service.

My purpose today is to outline the current threat to the United States from Russian organized crime, which continues to expand its operations into this country, and to discuss the part the U.S. Customs Service is playing to meet this very serious challenge.

In 1996, customs administrations around the world are reporting a new wave of criminal activity, new variations of money-laundering and drug-smuggling schemes, and a significant increase in commercial fraud. This new threat is real, and it is immediate. Its source is Russian-Eurasian organized crime, and at U.S. Customs, we have every reason to believe that the danger posed by this criminal organization will quickly increase in both size and scope unless law enforcement agencies such as ours undertake the construction of a strong and effective counter-offensive.

The fall of the Berlin Wall in 1989 and the subsequent collapse of the former Soviet Union have had critical consequences for the international community, which suddenly found itself dispossessed of the safeguards and formal agreements that had regulated the production, use, storage and disposition of nuclear materials and other weapons of mass destruction in the former Soviet Union.

For international organized crime groups and terrorist organizations around the world, the sudden dissolution of the former Soviet Union translated into an unprecedented free-for-all, one that offered access almost overnight to a vast supermarket of conventional weapons, weapons of mass destruction and their components.

This same upheaval also presented the international underworld with unparalleled opportunities to devise and deploy criminal schemes which not only support but even extend the capabilities and goals of international drug smugglers, money launderers and illegal arms traffickers. It is these subsidiary schemes and new opportunities that are now testing the resolve and the ingenuity of the U.S. Customs Service.

At Customs, we believe this challenge demands a clear and unequivocal response. Today we have an uncertain and changing geopolitical situation, and Russian organized crime groups are infiltrating this Nation's commercial and economic institutions with amazing speed.

Our larger objectives are ones which we share with other law enforcement agencies at home and abroad. We believe it is imperative

¹ The prepared statement of Mr. Weise appears on page 100.

to prevent weapons of mass destruction from falling into the hands of outlaw nations, organized crime groups or terrorist bands interested in orchestrating catastrophic attacks.

We believe it is necessary to employ the collective skills of U.S. law enforcement to ensure that organized crime does not subvert early efforts in Russia to introduce and sustain democracy, and we believe that we must act now to prevent the further entrenchment of Russian organized crime in the United States.

The growth of Russian organized crime groups in the United States mirrors their emergence in countries around the world. Many of the organized crime groups in the new republics are known to be associated with each other and have worked together in the past.

The criminal groups that constitute the organizations we have labelled Russian and Eurasian organized crime are themselves comprised of emigres from the former Soviet Union. These groups function as parts of an international network that has well-known ties to the Colombian cartels, to the Italian mafia, to Israeli organized crime, and to other international crime groups.

While criminal cells or networks now operating in the United States have been called, among other things, "the Russian mafia," unlike the traditional mafia, Russian organized crime is relatively unstructured; there is no well-established criminal hierarchy or firm chain of command. This absence of what has typically been an identifying feature for international criminal syndicates frequently makes it difficult for law enforcement agencies to tie specific criminal activities to Russian organized crime. Despite this difficulty, U.S. Customs does have the intelligence, information and evidence we need to identify Russian organized crime as the perpetrator in a number of dramatic cases.

These cases involve narcotics smuggling, money laundering and commercial fraud—all crimes which fall within our jurisdiction.

Since 1991, Customs has investigated approximately 82 cases involving Russian-Eurasian organized crime. With your permission, Mr. Chairman, I would like to take a few minutes now to outline three Customs cases that were generated by Russian organized crime which we think illustrate the dangers posed by this criminal syndicate.

Before I begin, however, I want to point out that the U.S. Customs Service does not investigate organized crime per se. We go after individual crimes, and the cases I am about to discuss demonstrate the ways in which Russian organized crime is triggering Customs investigations.

In June 1991, New York Customs agents initiated an investigation into possible heroin smuggling activities by Russian organized crime. The investigation had been triggered by the arrest of two Russian couriers who had arrived at JFK International Airport with 3,209 grams of heroin secreted in "body girdles," or what used to be called a "smuggler's vest"—something that looks sort of like this—it wraps around the midsection, and the drugs are contained therein.

As the investigation unfolded, it became clear that we were dealing with an extensive network of heroin couriers, Russian and former Russian nationals, who were entering the United States via

New York and Boston on a bimonthly basis. In the end, Customs succeeded in dismantling a heroin smuggling operation that employed enough couriers and possessed enough heroin to supply the entire East Coast of the United States. And what you see here is pretty much a schematic of the involvement of this organization, where the drugs originated in Bangkok, Thailand, and all of the complex entry points.¹

The 5-year investigation provided tremendous insight into the insular world of drug trafficking by the former Soviet Union criminal enterprises and illustrated how complex an investigation can become when U.S. law enforcement agencies face unfamiliar or unanticipated barriers created by a different culture and language.

This joint Customs-DEA investigation concluded in 1995 with the convictions of 14 defendants and the seizure of approximately 6,000 grams of heroin.

The second case I want to highlight today involves the illegal export of stolen cars by FSU emigres. A good American car is selling anywhere from 2 to 3 times its value in the former Soviet Union. The current cars of choice are 4-wheel drive vehicles, and as far as we can tell, the demand for these vehicles and for other models, for Mercedes, Jaguars and Oldsmobiles, remains high.

In this instance, our Customs investigation began with a telephone call from Latvian Customs to our attache in Bonn, Germany. Latvian Customs was requesting information about four American vehicles they had seized on their border with Belarus. Our attache in Bonn contacted our domestic office with the information passed on to him by the Latvians. The cars had been stolen in New York and driven to Chicago. In Chicago, these vehicles were secreted behind false walls—and you can see them depicted in these pictures—in containers that were filled with mattresses and boxes of what were listed in our Customs forms as “ordinary household goods.” It is not very visible here, but in one instance, you can actually see that the license plate is still on the vehicle.²

The criminals who stole these American cars attempted to export them illegally from the United States and moved so quickly that the license plate is still visible. The one thing I would say is that if anyone happens to be missing a Porsche with New York vanity plates reading “ONTHEBID,” you can contact us after the hearing, and we will see if we can match you up with the vehicle.

Senator ROTH. Do you have any estimate of how many cars are involved in this kind of operation?

Mr. WEISE. Yes. We can give you total numbers.

Mr. MACISCO. For Russian organized crime, Mr. Chairman, approximately \$25 million worth of automobiles, and we have made 77 arrests involving Russian organized crime exporting cars illegally from the United States.

Senator ROTH. Thank you.

Mr. MACISCO. The vehicles were worth approximately \$30,000 apiece on average.

Mr. WEISE. A number of arrests have been made in this case, including the organizer and leader of this group, who was once the

¹ The document referred to was marked Exhibit No. 1 and can be found on page 73.

² Pictures referred to appear on pages 116 and 11700.

bodyguard for Monya Elson, a notorious organized crime figure involved in the import and distribution of heroin in New York. This former bodyguard had been shot and wounded in New York after breaking ranks with Elson, and he subsequently fled to Chicago.

It is important, however, to understand that despite the occasional disagreements between the leaders of the Russian syndicate, they continue to mount a unified effort to create a criminal system in which various activities, drug smuggling, illegal exports, money laundering, reinforce one another and feed the emerging Russian criminal cartel.

So far, as was just indicated, U.S. Customs has recovered stolen vehicles, luxury cars, and construction equipment valued at more than \$25 million. We have also made 77 arrests with regard to this type of criminal activity.

The last case I would like to brief you on, Mr. Chairman, focuses on the kind of investigation that Customs does into the illegal sale, export and diversion of weapons and their components. While Customs has not yet discovered a direct link between these investigations and Russian/Eurasian organized crime, I want to touch on the case I am about to describe for two reasons—first, because I think it illustrates the wide range and international scope of the cases that Customs is called on to investigate, and second, because I think this case documents a criminal scenario that is inherently attractive to organized crime groups and which as such may be adopted at any time by Russian organized crime.

The Customs case originated with our resident agent-in-charge, our RAC office in Newark, and our success was due largely to the efforts of Special Agent Eric Caron, who is standing to my right, who began the investigation with one small piece of seemingly insignificant information and carried it to a successful conclusion.

The investigation involved a Newark, New Jersey-based company, Electrodyne Systems, which was defrauding the United States Department of Defense by importing Russian-made avionics, satellite communications, radar and radio components, and selling the equipment to the United States under military contracts as U.S.-made parts and equipment.

Two defendants, who are emigres from Russia and Iran, have been indicted for allegedly defrauding the Department of Defense. In addition to the fraudulent imports, the United States company was exporting U.S. defense technology, blueprints and designs to Russia and Ukraine without an export license, so that companies there could manufacture the avionics and equipment to U.S. specifications.

Interestingly enough, this was the first instance where Customs has focused on the illegal export of blueprints and designs as opposed to the export of actual items or equipment. As you know, U.S. defense contracting regulations prohibit the manufacture of U.S. weapons systems components by overseas companies, and for good reason.

Foreign companies that manufacture equipment frequently obtain classified plans and information, and in situations where these foreign companies may be front companies for organized crime, terrorist organizations or pariah states, the consequences may be far-reaching.

As far as we can tell, in this case our interests were compromised to the extent that the Department of Defense, specifically the United States Navy, might have lost millions of dollars by purchasing substandard product components intended for installation within our national defense systems if Customs had not stepped in.

The real danger in this instance, however, turns on the potential risk, on the possibility that the Russian companies that manufactured the components for which our Government had contracted might have used or sold the classified specifications sent to them by the U.S. contractor to terrorist or pariah states.

In this case, we cannot be certain that the classified information and specifications forwarded to Russia and the Ukraine were not passed on to other individuals or organizations. Moreover, we also know that it is possible if one has this information to reconstruct a prototype of our classified defense systems based on the analysis of a single component.

This particular case involved smuggling, violations of U.S. export control laws, and commercial fraud, all of which placed it firmly within our Customs jurisdiction. At Customs, we believe that we have a responsibility in this country to erect the kinds of safeguards and enforcement mechanisms that will preclude foreign manufacturers from obtaining what now appears to be easy access to classified information, plans and blueprints for technology critical to the national security of the United States.

The risks that I am outlining today, Mr. Chairman, remain international in their dimensions and impact, and they will continue to require a high level of cooperation and mutual assistance. Currently, the U.S. Customs Service has Customs Mutual Assistance Agreements with 26 nations. These are agreements we entered into to share information and to work cooperatively with our counterparts in these foreign countries. Since 1992, relations with the State Customs Committee of the Russian Federation have been greatly expanded and intensified. A new Customs Mutual Assistance Agreement was concluded in 1994 and signed during a summit meeting between Presidents Clinton and Yeltsin in September of that year. The Director General of Russian Customs, his senior staff, and the 12 directors of the regional customs administrations have all visited the United States, and several reciprocal visits have occurred or are being planned.

Russian Customs sent representatives to our Seminar on Nuclear Smuggling in September of 1995, and they also sent representatives to a U.S.-Russian Preventive Enforcement Technical Workshop in March of this year.

Our working relationship with Russian Customs is expected to grow significantly with the opening of an office in Moscow later this year, and we believe that the involvement of Russian Customs in our nonproliferation interdictions and investigations is critical to our future success. Both sides view such work as a national priority.

We are also providing a significant level of training and other relevant assistance to Russian Customs. Last September, U.S. Customs conducted a Train-the-Trainer program in St. Petersburg, Russia. The objective of this program was to further develop Russian Customs training infrastructure by increasing the number of

qualified training instructors. This specific course focused on training related to border interdiction.

As I speak today, another Customs training team is getting ready to travel to Moscow this weekend in order to conduct a similar Train-the Trainer course.

Senator ROTH. Mr. Weise, I would ask that you try to summarize so we can move on to the other witnesses. We will, of course, put your entire statement in the record.

Mr. WEISE. Absolutely, Mr. Chairman.

I would conclude, then, at this point, Mr. Chairman, and I do appreciate the important work the Subcommittee has done. I have no doubt that with your continuing support and interest, the U.S. Customs Service can meet the challenge quickly and effectively. We remain determined, in cooperation with the Departments of Treasury, State, Justice, Defense, Energy, Commerce, the intelligence community and our foreign counterparts to promote global security through enhanced border initiatives.

Thank you very much, Mr. Chairman.

Senator ROTH. Thank you, Mr. Weise.

Mr. Moody?

TESTIMONY OF JAMES E. MOODY,¹ DEPUTY ASSISTANT DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION, FEDERAL BUREAU OF INVESTIGATION

Mr. MOODY. Thank you very much, Mr. Chairman. On behalf of Director Freeh and myself, I would like to thank you and the Subcommittee Members for inviting me today.

Concerning Eastern European organized crime, there are some positive aspects and some negative aspects that we see today. A positive aspect for the FBI is the fact that we have established Eastern European crime as a sub-program of the organized crime program in June 1991. At that time, we began to try to establish an intelligence base on the problem that was beginning to appear here in the United States based upon a crime survey that we conducted in late 1990 and early 1991.

The second positive aspect is the relationship we have established with European and Eastern European law enforcement to address this crime problem, for instance, the positive relationship that we have established with the Russian Ministry of Interior since February 1993. We are trying to build lines of defense in Europe for this crime problem that is facing us here in the United States, and we would like to address the crime problem as far away from the United States as possible.

We are doing this through liaison relationships with law enforcement in Europe and in Eastern Europe, and we are also doing this through training exercise that we are doing in Eastern Europe, based upon money provided by Congress. For instance, in fiscal year 1995, we trained over 4,400 law enforcement officers in Eastern Europe.

The negative aspects of the problem, as we see it, are that they are expanding in the United States and internationally much faster than we anticipated. The organized crime groups are using inter-

¹ The prepared statement of Mr. Moody appears on page 120.

national borders and sovereignty issues for protection in their illegal activities, and this is often quite difficult to overcome.

A second major negative aspect is their ability to network with other organized crime groups internationally. This makes them one of the fastest-growing organized crime threats that we have seen.

I have a few charts that I would like to show you today to give you an example of what we are experiencing here in the United States. The first chart¹ is actually the results of our census in 1990, which shows you the demographics in the United States of where we have significant ethnic, Russian and Eurasian populations. It shows where the majority of the Russian, Eurasian and ethnic people are situated in the United States, and it comes to about 2.9 million individuals.

I want to emphasize as the Chairman did this morning that only a small percentage of any ethnic groups of any nationality is criminal, and an even smaller percentage can be identified as organized crime. But historically in the United States, the way that organized crime comes into our country is that it first establishes itself in its own ethnic neighborhoods for protection, because they feel comfortable, and because they prey upon the other emigres to the United States, and they prey upon the fact that most newcomers into the United States do not want to come to law enforcement for help; they have a fear of that.

The next chart² I want to show you dramatically shows some different things. For instance, this shows the number of field offices we have—and field offices are our major offices in the United States—the number of field offices that we have with ongoing investigations of Eastern European organized crime. Thirty-six out of 56 of our field offices have ongoing investigations. That is a far cry from the 68 total investigations that we had identified in our crime survey back in 1990 and 1991. In fact, at this time, we have 132 ongoing organized crime cases, and we have more than 215 investigations that we are working with the Russian authorities.

The next two charts³ will show you the Eastern European organized crime groups that we have identified here in the United States, including their leaders. There is a total of 26 of those groups. Now, I have testified before Congress in the past that we have more than 30 groups in the United States. This is a new figure that we are providing today, and it shows you how the problem is evolving in the United States. Although Eastern European organized crime is our fastest-growing problem, the evolution of organized crime from Eastern Europe is still in its infancy stage of maturation. The groups continue to vie for dominance, some groups are consolidating, and some groups are disappearing.

The last chart⁴ depicts the Eastern European organized crime groups that are active in the United States and where they are located. The reason why this chart is significantly different from the one that shows where our field offices are located is kind of unusual to me. You will see that they are not really locating in their

¹ The document referred to was marked Exhibit No. 6 and can be found on page 84.

² The document referred to was marked Exhibit No. 7 and can be found on page 85.

³ The documents referred to was marked Exhibit No. 8 and can be found on page 86.

⁴ The document referred to was marked Exhibit No. 9 and can be found on page 88.

ethnic neighborhoods, so this is a change from the historical aspect of organized crime as we see it here in the United States.

The organized crime groups continue to be involved in their traditional organized crime activities, such as extortion, protection rackets, drugs, illegal gambling, arson, and murder. But there is a second group of individuals that we are facing here in the United States coming out of Eastern Europe, and we like to describe them as the "fraudster." Senator Cohen earlier this morning gave the examples of the "rolling labs" and the Smushkevich brothers. These are the kinds of "fraudsters" that we are experiencing and are involved very much in economic fraud, insurance fraud, money laundering, health care fraud, Medicare fraud, and fuel excise tax fraud.

In the United States today, along the East Coast, we have both traditional Eastern European organized crime activity, and we have fraud activity, and the fraud activity on the East Coast is primarily economic fraud, money laundering, health care fraud, medical fraud, and fuel excise fraud.

On the West Coast, we see it a little bit differently. We see more "fraudsters" in money laundering, economic fraud, fuel excise tax fraud, drugs and extortion.

In middle America, we see automobile theft, insurance and health care fraud, extortion and drugs.

There is a mixture between these "fraudsters" and organized crime groups. Some of the organized crime groups may be involved in fraud; some of the "fraudsters" may be working independently, but they are associated with organized crime groups. So this is an eclectic mix that continues to evolve in the United States.

We also see in Hawaii recently a new phenomenon where there are lavish vacations going on over there involving a lot of people coming out of Eastern Europe, spending just thousands and thousands of dollars during their vacations. We see them beginning to purchase real estate in Hawaii, as we experienced a few years ago when the Japanese Boryocadan started doing the same thing.

Senator COHEN. Is there any left?

Mr. MOODY. They have the money; they keep increasing the prices.

So in summary, that is what we see occurring here in the United States. I would again like to thank you for inviting us here today, and I would be happy to answer any questions later.

Senator ROTH. Thank you, Mr. Moody.

Mr. Federico?

TESTIMONY OF EDWARD L. FEDERICO, JR.,¹ DIRECTOR, NATIONAL OPERATIONS DIVISION, CRIMINAL INVESTIGATION, INTERNAL REVENUE SERVICE

Mr. FEDERICO. Thank you, Mr. Chairman, Members of the Subcommittee.

What makes IRS so uniquely qualified and well-studied in this area is that we have been investigating organized crime and sending high-level organized criminals to jail for over 77 years.

¹ The prepared statement of Mr. Federico appears on page 140.

Nearly everyone has heard of the famous Al Capone. While the Capone investigation was certainly not our largest nor our most complex, it is a perfect example of what we do. When more conventional investigative techniques fail, we begin to follow the money trail. The proceeds of crime in our experience always lead to the criminal.

Special agents' combination of accounting and law enforcement skills have been essential qualities in conducting investigations which have led to the conviction of high-profile criminals who commit increasingly sophisticated financial crimes in both legal and illegal activities.

Today we are here to address the phenomenon of Russian organized crime, and as the Chairman so eloquently stated, we are using the term, "Russian organized crime" to cover a myriad of groups from the former Soviet Union.

In order to combat organized crime, one must have a thorough understanding of the criminals involved. This has been particularly true of our efforts to combat motor fuel excise tax evasion schemes that have been referenced here this morning.

We have identified some significant characteristics of the Russian organized criminal in this newly-established criminal enterprise. They display a remarkable aptitude for sophisticated white collar crime. They are ruthless, employing threats, intimidation and violence to further their aims. They are very adaptable. They are not monopolistic. They are very fluid.

These characteristics are particularly true of those individuals involved in motor fuel excise tax schemes investigated by the IRS. What started out as a novel fraud scheme contrived on Long Island quickly evolved into a billion dollar a year compliance problem for us and for the Nation.

Initially, gasoline was the product of choice. Gasoline excise tax revenues constitute almost 70 percent of the approximately \$20 billion in motor fuel excise taxes collected annually by our Government. To give you an idea of the money involved, an average tanker truck holds 8,000 gallons of gasoline. The combined Federal and State taxes per gallon can exceed 40 cents, so the average tax per tanker is \$3,200.

The complicated "daisy-chain" schemes devised by the Russians puts that \$3,200 per tanker into their pockets instead of into the pockets of the United States Treasury.

Senator ROTH. May I make sure I understand the correct figure? The total amount of taxes is \$20 billion a year on gasoline?

Mr. FEDERICO. Gas and diesel and other motor fuel; yes, sir.

Senator ROTH. And \$1 billion of that is absconded with through these scams?

Mr. FEDERICO. That is correct.

Senator ROTH. Five percent.

Mr. FEDERICO. Yes, sir. Now, we have made, as I will state later in my testimony, some very proactive changes to the law that have corrected the problem.

To say that these daisy schemes are complicated, well-planned and well-organized would be an understatement; yet they can be unraveled, and we have been doing that successfully for the past 10 years. I would like to briefly explain the most prevalent type of

scheme that the organized criminal is using, and that is the daisy chain.

To briefly demonstrate the complexity of this scheme, I would like to direct your attention to the chart¹ that has been placed to your left. The "daisy chain scheme" is the method which was developed by organized crime expressly for the purpose of stealing Federal and State fuel excise tax revenue. This scheme capitalizes on the weaknesses of our motor fuel excise tax law.

In the typical daisy chain operation such as the one depicted on this chart, which was actually used in a courtroom in Philadelphia, a complex paper trail of motor fuel transactions was created. At some point along the chain, the sale was fictitiously invoiced as tax-paid fuel. But the company supposedly claiming to have paid the tax turned out to be a fictitious entity, or an entity with no assets. This is what we call the "burn" company, which is the bottom company reflected on the chart.

By the time the auditors or the investigators unraveled the series of transactions to determine the true tax liability, the so-called "burn" company has disappeared without a trace of the records or the assets.

For such an operation to work, the perpetrator must be able to purchase and sell fuel tax-free. In the case of the Federal excise tax, this means having a registration number assigned by the IRS on a Form 637. Legitimate registration numbers have been obtained for fraudulent purposes by buying out registered companies or falsifying documents of legitimate companies. Suffice it to say that this single particular scheme defrauded the Federal Government and the State of Pennsylvania out of \$14.8 million.

Another example of the daisy chain scheme was in Newark. We called this the "Red Daisy" scheme. We used an ambitious undercover operation to expose organized crime influence in the fuel business in New York, New Jersey and Pennsylvania, orchestrated and executed by Russian emigres under the direction of a traditional mob boss named Tony Morelli. Morelli was a captain in the Gambino crime family and was sentenced this year to 20 years in prison for his leadership role.

The first phase of this 2-part, multi-year investigation focused on a scheme which defrauded the Federal and State governments of \$60 million in fuel excise taxes. In this scheme, members of the Russian "mafia" paid tribute to members of New York's organized crime families, including John Gotti.

Our undercover agents became so influential in the bootleg fuel industry that mobsters warned them to join their operation; get out of the business; or suffer the consequences. This threat became reality when the building being operated by the undercover agents was burned to the ground. This operation was a joint operation with the FBI and the IRS.

The second indictment of the Red Daisy was announced August 8, 1995. It charged 25 corrupt fuel dealers, along with members of both traditional and Russian organized crime, with the theft of over \$140 million in Federal motor fuel excise tax revenue. This

¹ The document referred to was marked Exhibit No. 10 and can be found on page 89.

case is currently awaiting trial, and we have determined that it is the largest tax evasion case in our history.

Fuel excise tax hurts not only the Federal and State governments by depriving them of revenue, but has a profound negative impact on legitimate fuel distributors and retailers. Their market shares erode, their profits decline, and some of them are even forced out of business. They cannot compete with the criminals.

The next chart¹ dramatically illustrates the impact of Russian organized crime on a particular market segment, in this case the State of Pennsylvania. Beginning in June 1990, you can see a dramatic decline in taxable gallons of diesel fuel reported in the State. The decline and corresponding loss of revenue was not reversed until June 1992. The Criminal Investigation Division increased its efforts to target criminal organizations in major metropolitan areas at this time. In the fall of 1992, our efforts began to produce dramatic results. The evidence gathered was used to obtain warrants to search hundreds of locations across the Nation.

Literally tons of documents and \$15 to \$20 million in assets were seized. The evidence made possible a series of indictments began in March 1993.² But as you can clearly see on the chart, the revenue began to recover almost immediately.¹

You may be wondering how this could happen—how could criminals be infiltrating our excise tax systems? In the 1980's, the major oil companies sold many of their brand name service stations and fuel terminals in the New York metropolitan area. Many were subsequently acquired by members of various immigrant groups, among them immigrants from the former Soviet Union. When the potential of motor fuel excise tax schemes was recognized by organized crime, the Russians were in an ideal position to sell bootleg gasoline at the stations they controlled.

During 1984 through 1988, gasoline schemes abounded. They were large schemes taking years to investigate using traditional methods. In 1988, legislative reforms moved the point of taxation—this is a very important point to us, sir—on gasoline from the wholesale distributor level to the terminal rack, substantially making it possible for us to improve compliance.

Denying the ability to steal gasoline excise tax revenue, the Russians quickly began to organize instead diesel fuel evasion schemes. Because the demand for diesel fuel is much less than gasoline, the Russians were forced to expand their organizations from New York into New Jersey, Pennsylvania, Georgia and Ohio, as well as other previously unaffected areas.

The diesel fuel evasion problem worsened from 1988 to 1991. In 1993, Congress passed the Omnibus Budget Reconciliation Act of 1993. The Act moved the point of taxation for diesel fuel from the wholesale distributor level to the terminal rack. Further, this legislation provided that only dyed fuel is exempt from tax after January 1, 1994 and that dyed fuel cannot be used on the highway.

Formerly, fuel used for tax-exempt purposes was not distinguishable from the taxed product itself. This made diversion of the product for illegal purposes a simple matter. Dyed fuel, by contrast, is

¹ The document referred to was marked Exhibit No. 11 and can be found on page 90.

² The document referred to was marked Exhibit No. 12 and can be found on page 91.

exempt from the tax, and because of its vivid red coloring, any attempted use of it on our highways can readily be discoverable by IRS Examination Division personnel through spot checks at the terminals and on the trucks.

This legislative remedy, however simple as it may seem, has produced significant increases in compliance.

Has the legislation been effective? My answer is yes. As a result of these important legislative changes and our investigative successes, Federal diesel fuel receipts increased during calendar year 1994 by \$1.7 billion. This gave us a net revenue increase into the Treasury of \$681 million. State revenues across the Nation have also risen.

Is the problem fixed? Not yet. I think that sometimes, a picture is worth a thousand words, as the saying goes. This is gasoline. This is what they started trying to bootleg and sell tax-free. When that failed, and we corrected the problem, they moved to diesel fuel.

I mentioned the dying. This is what happens when they dye the fuel, and the inspectors are looking for this in the trucks. But now what are they doing? They are moving to this. This is what is called on the street or in the vernacular "junk." This "junk" is cocktailed fuel. It is taking the good diesel fuel being run in our trucks and gasoline that is being run in our motor vehicles, and it is being combined with such things as waste oil, transmix, toxic waste, and other products. By doing this mixing, they are extending the volume of the taxable fuel.

Excise taxes are not paid on this extended volume. Criminals are selling these substandard and dangerous products to unsuspecting retail dealers and to motorists in many parts of the country. They are clogging up the engines, and worse yet, they may be polluting the air.

But the reason I am here is not to talk about environmental protection; it is to talk about crime. This last chart summarize some of the most important and significant indictments that we have been able to hand down for the period 1993 through August 1995.

Senator ROTH. Could you summarize, because our time is limited?

Mr. FEDERICO. Certainly. Quickly, what this shows is that we have been able in these specific cases to indict 136 individuals who were involved in tax loss investigations that totalled over \$363 million.

I do not want to leave you with the impression that the IRS is only concerned with the effect of the fuel business. We now have special agents actively involved in joint investigations with the Customs Service and with the FBI regarding narcotics, health care fraud, insurance fraud, prostitution, diversion of assets acquired from Russia, and so on. We are also working with greater cooperation internationally. We have IRS teaching financial investigation techniques courses to Russian personnel from the various regions of the former Soviet Union.

We are also instructing at the International Law Enforcement Academy in Budapest, and in fact, our Commissioner just recently participated in the dedication ceremonies for this academy in April.

We are also working on the assessment teams for the Russian banking system and helping to make recommendations to improve that system, including new money laundering legislation.

Finally, we are working with the MVD as partners, and they have invited us to send and place an agent in Moscow, which we are currently considering.

Thanks for your attention.

Senator ROTH. Thank you, Mr. Federico.

It is now my pleasure to call on Deputy Minister Kozhevnikov. I want to say again, Mr. Minister, how much we appreciate your being here, and we are looking forward, all of us, to your testimony. Please proceed.

TESTIMONY OF IGOR NIKOLAYEVICH KOZHEVNIKOV,¹ DEPUTY MINISTER OF INTERIOR, RUSSIAN MINISTRY OF INTERIOR AFFAIRS

Mr. KOZHEVNIKOV [Interpreted from Russian]. Allow me to express my gratitude for this opportunity to share with you my vision of the aforementioned issue.

An analysis of the situation shows that the process of criminalization has now attacked some of the more critical areas. This is an ongoing situation, and this represents a threat to our mutual security.

We can see a growth of regional separatism, and we can see that this monstrous process has shown results in Chechnya and is a tragedy not only for Chechnya but for other countries.

We have seen a reform of the economy which is perhaps not all that comprehensible for much of society, according to experts, in view of the high concentration of capital in the hands of private citizens. This has not only deepened social inequality within society, but has made for a more desperate struggle within the economy with the organized crime sector.

So that of 2.5 million persons who are working on officially registered crimes, 59 percent are qualified by the criminal law. We have a number of criminal structures in participation. This is allowed under Russian law. We see "pyramids" which involve millions of our people. Many of these people are not greedy, but people are simply participating in these pyramids hoping to protect their savings.

Now we have a new flow of immigrants. We have refugees coming into Russia, and this allows these newcomers to increase the number of criminals in our country.

We can see all the dangers of the legal system, and we realize that we have to work on our legal system. At the current time, our Parliament is working on a project dealing with organized crime, and we want to come up with new drafts which would allow us to improve our legal system. We are introducing a number of very crucial changes into our law, and we hope that by the beginning of 1997, we will be able to apply in practice the new legal system which we are currently introducing.

I would like to give you some figures on crime in Russia. Last year, if we look at the number of crimes, we see a 4.7 percent in-

¹ The prepared statement of Mr. Kozhevnikov appears on page 156.

crease over 1994, 59 percent of which are qualified as grave offenses.

Two-thirds of the officially registered crimes are of mercenary nature, the number of thefts, armed robberies of citizens' homes, vehicle drivers, collectives, currency exchanges significantly increased.

During the past year, main efforts of the Russian law enforcement agencies were focused on accomplishing tasks held by the Federal program on enhancing crime fighting.

The number of solved crimes has increased. Persons responsible for 837,000 grave offenses have been identified. In order to reimburse damage from illegal activity, forfeitures of illegal acquired property and valuables totalled 1.5 trillion rubles. At the same time, every fourth crime, two-thirds of armed robberies, and most of the contract murders remain unsolved.

During the last year, a set of measures on suppressing activity of criminal groups engaged in drug trafficking has been implemented. The growth of drug-related crimes has been noted in almost all regions of Russia. Compared to 1985, they have increased by 4.8 times.

Illegal production of controlled substances continues to develop. The manufacture of drugs in underground laboratories has become a significant factor of their illegal production and growth. However, a more dangerous tendency is currently a rapid enhancement of drug smuggling to Russian territory.

More than half of all confiscated controlled substances are of foreign origin. Almost all of such dangerous and expensive drugs as cocaine, opium, heroin, synthetic drugs quickly filling the Russian market are shipped from abroad by smuggling channels. Only the customs agencies of the Russian Federation have made 764 apprehensions of drug traffickers, almost twice more than in 1994, which led to forfeiture of 6.5 tons of narcotics.

The analysis of crimes relating to large shipments of drugs demonstrates that about 25 percent of persons responsible for them are citizens of the former republics of the USSR. They bring into Russia up to 30 percent of illegally circulating narcotics. Most of the drug traffickers are citizens of Ukraine, Kazakhstan, Azerbaijan, Lithuania and the Central Asian States.

There has been an increase in illegal shipments of drugs from the countries of the so-called "far abroad." These are primarily opium from Afghanistan, shipped through Tadjikistan, Kyrgyzstan, Turkmenistan, Uzbekistan, and also cocaine from Colombia, Peru and the United States, heroin from the Golden Triangle States, and controlled medical substances from India. Transit of drugs through Russia to Western Europe has become increasingly active.

Aggregate estimation of development of the above tendencies allows us to make a conclusion that Russian has become a target of international drug trafficking expansion of Russian criminal drug trafficking groups.

Let me say a few words now on the situation with regard to illegal attempts to seize or get control of radioactive materials. Theft is one of the most dangerous types of crimes connected with illegal trafficking of radioactive materials. Twenty-seven of such crimes were committed in 1993, 16 in 1994, and 5 in 1995. As a rule, they

were committed by the employees of the facilities where theft of radioactive materials took place. In 90 percent of these cases, common workers were responsible for such thefts.

Circles of persons involved in further resale have been forming spontaneously during the search for buyers. That accounts for the fact that there are no grounds for insisting on the existence of mafia-type organized criminals groups specializing in theft of radioactive materials.

Analysis of the investigation documents demonstrates that the primary objective of such criminal attempts are the sources of ionizing radiation used in small quantities in various industrial devices. Some cases involved theft of technological materials with isotope composition based on metal uranium-238 enriched to a different extent by uranium-235 or its derivatives.

The above radioactive materials cannot be used in production of nuclear weapons due to their physical characteristics.

It is essential to note that during 1994-95, we held several meetings with the representatives of the United States and German law enforcement agencies where we agreed on the mechanism of joint activities aimed at prevention of such crimes.

I would now like to take a closer look at the issues of fighting organized crime in Russia. Contemporary organized crime is a new qualitative level of professional group crime. This is reflected not only in a high level of professionalism and a developed network of corruption links, but also by a broad scale of its activities and influence exerted on a considerable number of branches in the national economy and power structure.

During the last 3 years, units of the Russian Ministry of Internal Affairs elicited about 22,000 organized crime groups with different extents of cohesion, with more than 94,000 members. Almost every sixth group was involved in interregional and international activities, and every tenth group had corruptive links with federal institutions.

A violent struggle for the division of spheres and territories of influence was unleashed among criminal clans. Just in 1995 alone, this led to 183 armed clashes leaving 156 persons murdered and 104 wounded.

Despite the difficulty of the criminal situation, law enforcement agencies did not lose control over the ongoing processes, but moreover increased their capabilities of restraining them. As a result of the undertaken measures, criminal activities of 14,000 organized groups were stopped during the last 3 years. Charges were brought against 41,500 leaders and participants.

An analysis of the available information disclosed a stable tendency of the increase in the number of Russian organized criminal groups engaged in illegal activities abroad. According to the preliminary estimates of the Russian Ministry of Internal Affairs, approximately 2,000 members of 110 Russian criminal groups commit crimes in 44 countries of the world. Out of this number, approximately every fifth criminal group has established links in Germany and every seventh in the United States.

According to our data, about 20 organized criminal groups of Russian origin are involved in illicit activities on the territory of the United States. Here, our data probably coincide with what we

heard here earlier. Their main interests are concentrated in New York City, Los Angeles, and Miami and include primarily money laundering, finance fraud, racketeering, drug trafficking, and so on. U.S. citizens are already becoming their victims. A number of fraudulent operations committed in Russia were planned by immigrants from the former Soviet Union on U.S. soil.

Today, jointly with the FBI, we investigate 56 cases which involve over 400 persons suspected of links with organized criminal groups, and nearly 140 companies and organizations engaged in money laundering and other illegal financial operations.

Investigation of the Ivankov criminal group case, the penetration into the computer network of Citibank, the group of international swindlers who claimed to represent a U.S.-based company, "NEWTEL" company, are the most vivid and well-known illustrations of our interaction. And we would continue this list if we wanted to.

I would like in conclusion to state the following. The criminals are uniting, and they pose a real threat to the entire world community. Meanwhile, international legal measures of extradition of criminals and restitution of property or reimbursed money acquired by means of illegal activities are currently insufficient.

Nowadays, the Russian Federation is making considerable efforts to establish an appropriate international legal basis for cooperation with our foreign partners. As you know, we intend to sign a broad-scale U.S.-Russian treaty on mutual legal assistance as soon as possible, and that is stated in the joint statement by President Clinton and President Yeltsin on September 28, 1994 on cooperation in the field of law enforcement and crime fighting and in the intergovernmental agreement of 1995 between Gore and Chernomyrdin.

We would like to ensure that these intentions be rapidly implemented. I thank you for your attention.

Senator ROTH. We thank you, sir, for your very helpful testimony. We will have some questions for you in just a few minutes.

First, Commissioner Weise, in your testimony, you mentioned that the Department of Defense was defrauded by material that was built on stolen intellectual property and was inadequate.

Could you tell me how wide or how broad are these kinds of incidents? Do you have a sense of how widespread a practice this is?

Mr. WEISE. It is difficult to quantify at this point. I think this was the most significant case of its type that we had where it actually was not stolen materials, and perhaps I did not explain it well enough. The company, Electrodyne, entered into a Government contract with the United States Government, and they were properly authorized to produce these products. But as in effect a cost-saving move, what they did was subcontract—they sent the blueprints and plans abroad to some of these states which were not supposed to have these kinds of materials, significantly reduced the cost of production, so to speak, but also created great risks in terms of our national security. It is the first of its kind, of that type of investigation, that we have had. We have done a number of other specific investigations relating to national security, attempting to export products that are not supposed to go out of this country that are highly sensitive, but this was the first of that kind of case where

they actually sent out the blueprints to be manufactured by in effect a subcontractor to a company that entered into an actual contract with the Government.

We cannot really quantify the number of cases. For the record, we will try to give you the number of cases like this in which we have been involved, but it is hard to say how broad a problem this is at this point.¹

Senator ROTH. You also mentioned in your written statement that Russian organized crime is investing its assets in real estate. Again, how widespread is that practice? What kind of real estate are they buying? And are they also investing in businesses, like more traditional organized crime has?

Mr. WEISE. Yes, and I believe one of the other witnesses alluded to some of the investments that are taking place in Hawaii. Like any other organized crime group or any large crime group, they need to launder the proceeds, the money, and they are doing it for that reason as well as to create some semblance of legitimacy to be able to prosper, not only continuing money laundering, but continuing a foundation for their criminal enterprise.

Again, we do not have specific numbers on the total number of investments by Russian organized crime, but it is a growing trend, and one that I think we are seeing in all of the law enforcement organizations represented here, a new problem that is developing and growing.

Senator ROTH. You also mentioned in your testimony that Russian organized crime groups in the United States are laundering money for the Colombian drug cartels. Can you explain how these two organizations are collaborating?

Mr. WEISE. Well, I do not want to go into the specifics; we can perhaps provide some of that outside of the public arena. But one of the things that has really struck us about the flexibility of the Russian organized crime is that they are very adept at dealing with the other existing organizations, such as the Cali cartel, the people in Colombia, the Italian mafia and others. They are very flexible and fluid, and there seems to be some acceptance on the part of some of these other organizations of Russian criminals as not necessarily a threat, but as persons whom they can work with. And we can talk to you about some of the specifics that we found in some of our investigations off the record.

Senator ROTH. Mr. Moody, as I understand it, Russian organized crime presents some unique language and cultural challenges to law enforcement. How well-equipped is the FBI in these areas to adequately investigate organized crime? For example, are you able to effectively translate wiretaps, run undercover operations, and assist local police in these matters?

Mr. MOODY. We have a very difficult time keeping up with that. We address it through FBI agents who do speak the language—and we have an insufficient number of them. We also contract linguists on a case-by-case basis, and we quite often have a difficult time doing that, identifying those who want to work for us and identifying those who will travel to where we have the need. This is a continuing problem that we have all the way across all organized

¹ The document referred to was marked as Exhibit No. 14 and can be found on page 97.

crime lines right now, especially in the Spanish language, the different Chinese languages, dialects, Japanese, and all those coming out of Eastern Europe. This is a continuing problem throughout law enforcement right now.

Senator ROTH. Has any effort been made to use law enforcement officials from other countries who have needed language abilities?

Mr. MOODY. Yes, sir, in fact, we have. Various countries have assisted us quite often in doing that. Due to some of the rules that you work under whenever you are doing electronic surveillance, it is quite often difficult, but there are procedures that you can set up to allow them to assist you on a wiretap or a microphone. Generally, they help us post-recording and go through the recordings to assist us. In fact, we have had quite a bit of assistance from the Russian MVD; in fact, some of their officers have actually been here in the United States and testified before grand juries, and we are anticipating they are going to be testifying at some trials soon.

Senator ROTH. Mr. Moody, I understand that the criminal groups in the former Soviet Union are said to be much more structured than the Russian groups here in the United States. How do you expect the Russian criminal groups to evolve over time?

Mr. MOODY. We see the Russian groups, the Eastern European groups, establishing themselves not only in Russia but throughout Eastern Europe and the United States, and it depends quite often on each individual organization. For instance, we see them establishing themselves in Austria and in some of the Western European countries and here in the United States, based upon an individual leader.

I anticipate, based on 25 years in organized crime, that we are going to continue to see them evolve and build more structured organizations, and that a lot of the organizations that we see today will fall by the wayside; they will either be destroyed in fights for territory, or they will be absorbed by some of the stronger groups. And as they become more structured, they will set up various coordinating mechanisms, like the Cosa Nostra here in the United States.

In fact, we are beginning to pick up some intelligence at this time that they are beginning to coordinate their activities inter-group, internationally, at this time.

Senator ROTH. Thank you.

Mr. Federico, as you pointed out, we have passed some legislation that has significantly helped the situation but has not entirely eliminated it. What more do you think we can do here, particularly in the Congress, to help address the problem of fuel tax fraud?

Mr. FEDERICO. One of the issues currently before you involves kerosene. Kerosene currently is not a taxed fuel. Kerosene at times, though, is being utilized to what we call "blend." Like I pointed out with the cocktailing, blending increases the volume.

What is before you right now for your consideration is to impose a tax similar in amount to the diesel fuel tax for kerosene; this likewise would be taxed at the terminal rack, and that could greatly assist.

Also, as far as a direct law enforcement need for the IRS is a bill that is currently pending as part of the tax reform bill that Senator Pryor has introduced that involves "churning." This gives the IRS

authority to use any quote-unquote "profit" that it earns during an undercover operation to be used back in that operation to help with the budget of that particular operation. That is under consideration right now by the Senate.

Senator ROTH. Your testimony mentioned that bootlegging of motor fuel over State lines continues to be a major problem.

Mr. FEDERICO. Yes, Senator. As we started to correct the issue of a Federal tax, moving it back from the wholesaler or the retailer to the terminal rack, that really took the wind out of their sails, if you will. What we are finding going on now is that they are buying gas or diesel fuel in low-tax States, moving that, bootlegging it, trucking it, to high-tax States, and then selling it there; and therefore the profit margin would be the difference between the two taxes. That is one of the issues that is going on.

The other way of bootlegging we have found is to move the gasoline or diesel fuel from foreign countries such as Canada and bringing it into the United States and applying for a rebate of the tax in Canada, then selling it at the higher price here in the United States, saving the tax, naturally.

Senator ROTH. Deputy Minister Kozhevnikov, you mentioned that criminal groups in Russia have sent their associates to the United States to establish companies that ship illegal drugs and weapons to the former Soviet Union. Do you have any specific evidence of that?

Mr. KOZHEVNIKOV [Interpreted from Russian]. Yes, I do have some specific instances where we have managed to discover such instances; I do have specific data on that.

Senator ROTH. And is that true of weapons as well as drugs?

Mr. KOZHEVNIKOV [Interpreted from Russian]. No. This would be drugs.

Senator ROTH. Mr. Minister, you are no doubt familiar with the trial in this country of the Russian criminal leader, Ivankov. How powerful was this man in Russia, and why did he leave your country to come to the United States?

Mr. KOZHEVNIKOV [Interpreted from Russian]. We think Mr. Ivankov was basically trying to escape arrest in our country, and he felt the United States would provide a safe haven.

As far as Ivankov is concerned, he was a prominent leader of organized crime in Russia; he was a hardened professional thief who was very respected by his colleagues. They have a special title for people like that; he has the special distinction of being what is called a "legal thief." It is a special title, meaning a hardened, high-level criminal. And Ivankov evidently realized that his arrest was imminent, and that is why he chose to attempt to leave Russia.

We worked on this particular case together with the FBI. We sent 200 persons here to work on the operation. I hope that the trial in court will be successful in its conclusion.

Senator ROTH. Mr. Minister, some hockey players from the former Soviet Union who play professionally in the United States have become victims of extortion. Is this also a problem in the former Soviet Union, where these players often visit and still have families?

Mr. KOZHEVNIKOV [Interpreted from Russian]. I would not say that our professional athletes are a particular problem inasmuch as

on Russian territory, for example. We do have individual incidents, but we do have incidents of extortion not only of athletes, but of a number of persons who have considerable financial wherewithal. But I would not say that this is a particular problem with regard to athletes specifically. That is my opinion, anyway.

Senator ROTH. I will ask you one further question, Mr. Minister. You testified about the theft of radioactive material from facilities in the former Soviet Union. You also testified that this was not material that could be used for manufacturing nuclear weapons. Are there any cases where material or intellectual property, has been stolen or sold, to your knowledge?

Mr. KOZHEVNIKOV [Interpreted from Russian]. Well, we have the federal security system. That is their purview, actually; that is their bailiwick. I am unable to provide you with the appropriate information in that regard because I do not have the facts at hand.

Senator ROTH. Thank you.

Senator Lieberman?

Senator LIEBERMAN. Thank you, Mr. Chairman, and thank you, gentlemen from the U.S., and thank you, Minister Kozhevnikov, for the cooperation of the MVD with American law enforcement and for taking the time to be with us this morning.

Let me begin with a general question. In the private sector, when a new business comes in to compete with an existing business, either the market expands, or the existing business goes out of business or diversifies and goes into something else.

So here, with a whole new generation of organized criminals and so-called Russian organized crime families or groups coming in, I am wondering what you would say has been the reaction of the existing illegal business groups, the existing organized crime families. Are some of them going into other areas, or do we have a generational change happening where, in a sense, the children now go into legitimate businesses, and that is the end of that operation, or is just the market expanding?

Mr. Moody, do you want to start?

Mr. MOODY. What we see is that, for instance, the gas tax fraud really started with the American La Cosa Nostra. What we see happening today is that the La Cosa Nostra will basically franchise the operation to the Russian groups and get a kickback in all this, so that everybody makes money.

We do not see Russian groups coming in and trying to vie and fight for territory with other organized crime groups. They enter into cooperative agreements. There is enough money out there to be stolen by everybody, and they share the profits.

Senator LIEBERMAN. Mr. Federico or Mr. Weise, does that conform to your perception of what is happening?

Mr. FEDERICO. That conforms exactly to what we have seen. As Mr. Moody said, the Italian mafia, if you will, in New York started the idea of the daisy chain that we described. They then used the abilities of the Russians who had purchased the retail service outlets, and that was a perfect forum for the Russians to get into that. They pay tribute to each other and in fact share the illegal profits.

Mr. WEISE. I do not have anything to add to that, Senator.

Senator LIEBERMAN. So the age of mergers has reached illegal activities as well as legal activities in this country, but apparently

without the same effects of downsizing that occur in the private sector.

Mr. FEDERICO. It is much more efficient.

Senator LIEBERMAN. It is much more efficient, and the employment opportunities continue to be vigorous.

Mr. MOODY. Very much so; they are expanding, not downsizing.

Senator LIEBERMAN. In that regard, I was interested in your testimony, Mr. Weise, about the interception that Customs has done of heroin and other illegal drugs which have been transshipped through the former Soviet Union and the former Warsaw Bloc.

First, do you have a sense of how significant a proportion of the drugs coming into the United States are coming through this so-called Russian organized crime network? We tend to think of the drugs coming in most significantly from Latin America, although I know it is more complicated than that.

Mr. WEISE. It is difficult to quantify at this point, Senator, but I would say at this point it is very small in terms of total percentage, but it is growing and growing at a fairly fast pace.

Senator LIEBERMAN. Were you tipped off in the case that you described by law enforcement authorities from the former Soviet Union or Warsaw Bloc countries as to the transshipment of illegal drugs, or was that discovered here at point of entry?

Mr. WEISE. We have various cases that are working, but that one particular case, we did have some undercover information, and we have had cooperation with other law enforcement organizations in the former Soviet Union.

Senator LIEBERMAN. And am I correct, hearing your testimony, in saying that the level of that cooperation with law enforcement in the former Soviet Union is going up and is becoming more extensive?

Mr. WEISE. Yes.

Senator LIEBERMAN. I wanted to get to a point related to that. Senator Roth mentioned in his opening comments that there is not an extradition treaty that now exists between the United States and Russia. I assume that it would be helpful to your efforts, gentlemen, if such a treaty existed. Am I correct in that?

Mr. MOODY. Senator, when we first started out, there were no treaties at all. The example Mr. Federico used of the gas tax fraud in Philadelphia, when that case was indicted, there were five individuals who fled back to Eastern Europe. Two of them fled to Russia, two fled to the Ukraine, and I do not know where the fifth one went. At that point, I contacted my counterpart in the MVD and asked him for assistance in Russia to arrest David Shuster and Dmitry Belokopytov, and they did. They arrested for us those two individuals and put them on an airplane flying directly back into the United States, with FBI agents abroad, so that we could then arrest them here in the United States.

At the same time, the two individuals who fled to the Ukraine heard about it, and since the Russian authorities were shot at when they went out to arrest Shuster and Belakopytov, and there was a little physical restraint of these two individuals, well, the two individuals in the Ukraine voluntarily came back.

Senator LIEBERMAN. They were made an offer they could not refuse.

Mr. MOODY. Yes, sir. The Russian authorities did a very good job. When my FBI agent showed up and talked to Mr. Shuster, he said that he was bringing him back to the United States for arrest, and if he gave him any problem, he was going to leave him in Russia; and Shuster's response was, "There will be no problem."

From that position, we have gone on, and today, we have a legal agreement that has been signed by Vice President Gore and Vice Premier Chernomyrdin, and we are working toward a mutual legal assistance treaty. I believe that we really need to have that mutual legal assistance treaty which would cover all of this.

Senator LIEBERMAN. So it is not a formal extradition treaty, but there now is a legal agreement that has been achieved at the Gore-Chernomyrdin level, and we are moving toward that.

Mr. MOODY. Yes, sir.

Senator LIEBERMAN. It is very interesting that the movement of the criminals once identified is not only as it was in the case of Mr. Ivankov that you described from the former Soviet Union here, but also that when indicted here, some of the Russian crime figures have gone back there. So it is obviously important that we have mutual extradition.

I did want to ask both Mr. Kozhevnikov and the others, in the case of Mr. Ivankov, did you know when he was heading to the United States? Were you able to track him at that time? And then I want to ask the Americans here how did he gain entry into the United States?

Mr. MOODY. If I may add, Senator, we are not exactly sure how he gained entry into the United States. The Russian authorities told us he was coming and that he came into the United States. We are not exactly sure. We know he went in and out of the United States a number of times. The Russian authorities told us about him and basically where he was located and enabled us to start targeting him for investigation, which ultimately led, with their cooperation, to his indictment. I believe he goes on trial this month.

When we arrested him, I believe we found him with seven different passports in seven different names. That gives you some idea of what we are facing internationally today with the rapid communication systems, with the rapid ability to travel internationally, and with the counterfeiting—or a lot of these passports are legitimate passports in a number of different names—it is very difficult to keep up with these individuals.

Senator ROTH. Were they all phony passports, or were they bona fide?

Mr. MOODY. Some of them were legitimate with different names.

Senator LIEBERMAN. So that in other words, they are unlikely to be coming in under their real names. I am wondering to what extent it would help if in this cooperative relationship you have with the Russian authorities—well, the immigration officials, for instance, had a list of the names of organized Russian crime families—

Mr. MOODY. We have received lists of names from the Russian authorities and have provided them to Immigration to help keep these individuals out. We have also provided them to the State Department as a screening mechanism.

Senator LIEBERMAN. Has that had any effect in the sense of apprehending any of them, or are they coming in mostly under assumed names?

Mr. MOODY. If I may, it has had more of a deterrent effect; it makes it a little more difficult for them to come in. And there are certain very well-known individuals who are trying to come into the United States who have been barred from coming into the United States.

Senator LIEBERMAN. Very well-known as organized crime figures in Russia?

Mr. MOODY. Yes, sir.

Senator LIEBERMAN. And again, are they attempting to come in to escape prosecution in Russia, or are they just coming in because it is better business? Mr. Kozhevnikov?

Mr. KOZHEVNIKOV [Interpreted from Russian]. I can say that you are correct when you speak about the need to exchange more information. I have in mind information which each side has at its disposal. We are working with the FBI just now to prepare a list of persons who, in our view, are planning to move to the United States to engage in criminal activity, and we intend to hand it over in the near future. But we would like also to get similar information on former citizens who are already here now and have been convicted so that we might be able to use this information for our own purposes.

On the whole, I would say we are moving in the direction of closer cooperation.

Senator LIEBERMAN. That is good news for both sides, and I hope it will continue. May I ask you this question, and you alluded to it in your testimony. There has been a general impression given that Russian organized crime figures here in this country are not operating, at least at this point, in a tightly-structured organization, that there are more individual illegal entrepreneurs. Do you have any evidence that the Russian criminal figures are sending members of their groups over here to go into this, and are there continuing relations, economic or otherwise, between the crime families in Russia and those Russian organized crime figures here, or is it totally a separate, independent operation in the United States?

Mr. KOZHEVNIKOV [Interpreted from Russian]. We were speaking of well-known criminal families—I missed the beginning of that; I did not hear the soundtrack.

Senator LIEBERMAN. Unfortunately, the translation was not working earlier. Let me just ask the basic question again very briefly. Is there a connection between organized crime families in Russia and those that operate here in the United States?

Mr. KOZHEVNIKOV [Interpreted from Russian]. We have at our disposal preliminary intelligence to the effect that such contacts are taking place.

Senator LIEBERMAN. Thank you.

I have a final question for the gentlemen from U.S. law enforcement. As to the violence that is being committed by members of Russian organized crime, is it as we have become accustomed to experiencing with earlier groups, primarily within the groups themselves fighting for turf, or is violence used against nonmembers,

against the targets of extortion or other criminal activities by Russian organized crime in the United States?

Mr. MOODY. We see the use of both. In a case out of Philadelphia, I believe, 10 Russians were killed. They were killing each other during that investigation. But we also see in the Ivankov investigation that the father of one of the victims was beaten to death on a subway platform in Moscow. We see both the use of violence—they very readily use violence, and they very readily use violence against law enforcement.

Mr. FEDERICO. That is a trait that I think we have to respect and guard against, their willingness to use violence against law enforcement.

Senator LIEBERMAN. Including in the United States?

Mr. MOODY. I do not know of any specific example in the United States yet. We have picked up intelligence information that it is being considered.

Senator LIEBERMAN. But they have employed violence against law enforcement within Russia.

Mr. MOODY. Within Russia, it is a very significant problem, and maybe he will tell you about it—the number of law enforcement officials who have been killed in the last few years.

Senator LIEBERMAN. Am I correct that that traditionally has not been a pattern of organized crime?

Mr. MOODY. In the United States.

Senator LIEBERMAN. Yes, in the United States, that they have not used violence against law enforcement for fear of reprisals, I presume.

Mr. MOODY. That is correct; in the United States, they have not.

Senator LIEBERMAN. So that if these intelligence reports are correct, it would be a new and, to put it mildly, unsettling, outrageous development here.

Mr. MOODY. Yes, sir. We have had discussions with certain of these individuals about the down sides of doing something like that.

Senator LIEBERMAN. So you have actually had informal but direct warnings?

Mr. MOODY. Yes, sir. We have had the same thing over the years with the La Cosa Nostra.

Senator LIEBERMAN. Thank you for what you are doing. I wish you well.

Thank you, Mr. Chairman.

Senator ROTH. Thank you.

Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

I know this panel has been going on for some time, and we want to release them so we can get to the other panels, but I would just like to pose a couple of thoughts.

Since I have served on this Subcommittee, we have investigated a variety of issues involving organized crime. We have investigated, for example, the organization of "chop shops" in the United States, money laundering operations, currency exchange operators along our borders, professional boxing, a whole variety of areas. We have found a commonality of issues involved in each of these cases.

Number one, there are big profits involved. Whenever there are big profits, and on the other side of the equation, you have low risk—low risk of detection, low risk of prosecution, low risk of conviction and low risk of sentencing—you are going to have a proliferation of activity in this particular field. We have found it in virtually every area we have ever investigated.

What comes to mind as I listened to the testimony this morning is that we have precisely the same situation here. There is a very low rate of detection—I think you indicated, Mr. Weise, that but for the agent sitting behind you and his picking up one small piece of information, that business of Electrodyne exporting the blueprints never would have been detected.

That raises several issues in my mind. First of all, on the first chart you showed, you indicated that there were 6,000 grams of heroin being smuggled in, and you said that 14 people have been convicted. My question is what were the sentences given out to those 14 individuals who were convicted?

Mr. WEISE. We will get you that specifically for the record,¹ Senator, but I am being informed that it was consistent with the Federal guidelines on each of those kinds of cases; but we will get you that specifically. But your point is well-taken, that probably one might say it was not severe enough.

Senator COHEN. Well, whether we are talking about heroin smuggling, auto theft, military equipment coming back into the United States, the question is what are the chances of it being detected, successfully prosecuted, and if prosecuted successfully, what is the sentence going to be? I raise this in connection with Mr. Kozhevnikov, and I will turn to him in a moment, but I read the memoirs of Natan Sharansky. I assume that the prison conditions and sentences in Mother Russia are not exactly "Club Fed," or maybe in this case, Club Med, but in any event, I assume that the authorities in Russia do not have Federal courts which oversee the living conditions, the number of people who serve in their particular prisons, whether or not their living conditions are up to standards as far as Federal standards are concerned.

In other words, we have a situation where you have people who are leaving, organized crime figures who leave Russia to come here, with little prospect of being caught, detected, convicted, and then sentenced to what—something that is quite easy, I would assume, by Russian standards. As I go back and read Sharansky's memoirs being put away, is not exactly a holiday.

So I raise this as an issue because it seems to me—and you have indicated, Mr. Moody, that this is in the initial stages. What is going to stop this tide from expanding if in fact they keep looking at the profit side, with the low risk of detection and prosecution, and then what is the penalty going to be?

I think it is probably not feasible, but one might propose that if we have these international links that have been established, as Senator Lieberman was talking about, between organized Russian gangs here and the gangs back home, perhaps we might have a policy of extradition, and if we in fact apprehend people who are violating our laws, and they do have connections back to the home-

¹ The response to this question was marked Exhibit No. 14 and can be found on page 97.

land, that we send them there for prosecution and conviction and sentencing. That might be a greater disincentive than we currently have under our own rules.

Mr. Weise, you got my attention in terms of Electrodynne sending out these blueprints basically to subcontract to manufacture certain component parts that go into our military equipment. We have all been fixated, and justifiably so, on the recent tragedy that occurred with one of our commercial airliners going down. We have had evidence, for example, that suspected unapproved parts are making their way back into the commercial airline industry, that is cause for concern to all of us. But if you think about the implications of allowing parts to our military equipment being factored out or subcontracted out, coming back in, it would seem to me to make logical sense for a foreign military or intelligence operation to in fact encourage organized criminal groups to be manufactured parts to come back into the United States to go into our military equipment.

It would seem to me you would have a perfect marriage between officials of another government cooperating with organized criminal elements to achieve precisely the placing of defective or inferior parts in your potential adversaries' military equipment.

Mr. WEISE. Senator, that is precisely the reason why we included that example in our testimony notwithstanding the fact that we do not have direct evidence of whether or not it is—

Senator COHEN. But it raises another issue as to what we can do about it. For example, is there any law that would prohibit a major military contractor in the United States from contracting out the manufacture of certain component parts to established allies? We know, for example, that when we talk about an American-made car, the engine might come from Canada, the body might come from Mexico, the electronics might come from Japan.

Now, we are talking about a multinational defense contractor. Is there any prohibition—you are going to be advised there in a moment—is there any prohibition on these multinational contractors from having any of the parts made in other countries that are allies of ours?

Mr. WEISE. Well, clearly, Senator, you are getting well beyond our area of expertise, and yet what is being whispered to me is that there are Department of Defense guidelines, which obviously the Department of Defense would be much more appropriate to be answering these questions.

Senator COHEN. Then, my follow-up question would be do you have any kind of a liaison relationship with the Department of Defense to coordinate your investigations with DOD. Are you able to determine whether or not, if it is permissible—we have what we call "false flag" operations in the business, an ally could be manufacturing a component part for a piece of defense equipment which in turn has been compromised because that particular operation is really being run by another organization by another country.

Mr. WEISE. And the answer to your question is we clearly consulted very closely with the Department of Defense, both on these matters and all of our export control responsibilities.

Senator COHEN. OK.

Mr. Kozhevnikov, how many police have been murdered in Russia in the last year or so? Is it roughly 500?

Mr. KOZHEVNIKOV [Interpreted from Russian]. I think I can give you the exact number; about 278 in 1995. These are persons who were involved in performing their formal obligation.

Senator COHEN. And do you have any evidence of Russian political figures being either extorted, intimidated or otherwise compromised by organized crime groups in Russia?

Mr. KOZHEVNIKOV [Interpreted from Russian]. Well, if we want to speak about well-known political figures, we do not have such data or information. If we want to speak about local authorities, yes, we can confirm that such instances do take place.

Senator COHEN. We know that organized Chechen groups that operate in southern Russia are involved in a produce inventory operation. Do you know whether any of the Chechen organized groups operate in the United States?

Mr. KOZHEVNIKOV [Interpreted from Russian]. I have no information on Chechens in the United States.

Senator COHEN. Thank you.

Thank you very much, Mr. Chairman. I know you are anxious to move on.

Mr. MOODY. Senator, we have arrested Chechens in the United States.

Senator ROTH. Thank you.

Thank you, Senator Cohen, and thank you, gentlemen, very much. We appreciate your very helpful and informative testimony.

Mr. Minister, thank you again for being here.

At this time, I would like to call forward our next witness, Michael Franzese, a former captain in the Colombo organized crime family.

Mr. Franzese, as you know, we swear in all witnesses who appear before this Subcommittee, so would you please rise and raise your right hand?

Mr. FRANZESE. Yes.

Senator ROTH. Do you swear or affirm that the testimony you will give to this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. FRANZESE. I do.

Senator ROTH. Thank you, and please proceed with your testimony.

TESTIMONY OF MICHAEL FRANZESE,¹ FORMER CAPO, COLOMBO ORGANIZED CRIME FAMILY

Mr. FRANZESE. Good morning, distinguished Members of the Subcommittee.

My name is Michael Franzese, and I have been subpoenaed here today to address the Subcommittee regarding my personal experiences with Russian organized crime in the United States. In order to understand the extent of that activity, the Subcommittee needs to be aware of my own background and former involvement in organized crime.

¹ The prepared statement of Mr. Franzese appears on page 162.

I was born in Brooklyn, New York. My father is John "Sonny" Franzese, former underboss of the Colombo crime family, one of New York's five La Cosa Nostra families. In 1975, I became a "made" member of the Colombo family, in a formal induction ceremony presided over by then family boss, Thomas DiBella.

I acted in the capacity of "soldier" from 1975 through 1980, when I was appointed a "Caporegime" and given a crew of soldiers to preside over.

During the years I was a member, I engaged in criminal activity on my own behalf as well as that of the Colombo family. Such criminal activity included tax fraud, loan sharking, gambling, securities fraud, labor racketeering and extortion.

In 1985, I was indicted in the Eastern District of New York for various racketeering charges. In 1986, as part of a plea agreement with the Organized Crime Strike Force of the Department of Justice, I pled guilty to 2 counts of the 28-count indictment relating to tax fraud. I accepted a 10-year prison sentence and \$15 million in fines and restitution.

In or about 1987, while in Federal prison in California, I decided to sever my 12-year relationship with the Colombo crime family and organized crime in general. As I address the Subcommittee here today, I am no longer a member of organized crime.

In early 1980, while I was a Colombo family soldier, Lawrence Iorizzo, a major independent gasoline wholesaler based in Long Island, New York, came to me for protection. Iorizzo and Russian organized crime figures working independently of one another each figured out how to orchestrate one of the most lucrative Government rip-offs of all time—stealing gas tax money.

As you have been told by previous witnesses, this was a complex scam that, over the years, has netted Italian and Russian organized crime hundreds and hundreds of millions of dollars. And the Russians pioneered and perfected these schemes to where I understand it is still going on today despite changes in the law.

I first got involved because some mob figures were trying to shake down Iorizzo. Iorizzo owned or operated some 300 independent gas stations throughout Long Island at that time. It was a cash-heavy operation. I resolved Iorizzo's problem by sending some of my men over to let these other mob figures know Iorizzo was with me. That ended Iorizzo's problem. In return, I became his partner in the wholesale gasoline business, and this business became an organized crime-controlled operation.

Later in 1980, I began working with Russians in the gas tax business. One of my soldiers, a guy named Vinnie, had been approached by the Russians to help collect a \$70,000 debt. Vinnie's job was to say, "Pay the money, or I'll break your legs," and to sound convincing, which he was. My guy came to me with the Russian's offer to see if I was interested. I was, and so I arranged a meeting with the leaders of this Russian organized crime group—Michael Markowitz, David Bogatin, and Lev Persits. These men owned and operated a wholesale gasoline company in Brooklyn, New York.

These Russians were having trouble collecting money owed them. They were also having problems obtaining and holding onto the licenses they needed to keep the gas tax scam going. I could

help them on both counts. First, the Colombo family's reputation was very effective in causing people to pay their debts. Also, our family had a guy at the commissioner of revenue's office at the State House in Albany who could get the necessary licenses.

The Russians were eager to align themselves with someone who could resolve both problems. Because of my association with organized crime, they believed me to be that person. As it turned out, I was.

We arranged a sit-down on a Saturday morning in the fall of 1980 at a Mobil station they owned in Brooklyn. The three Russians told me how they were stealing tax money due the Government on the sale of gasoline and how they often ran into problems collecting some of the illegal proceeds from their customers.

We cut a deal whereby they agreed to become part of my organization. I would provide them with protection from the other mob families and the muscle to collect all the money due them. Through the services of Lawrence Iorizzo and our gasoline operation, they would have access to the wholesale licenses they needed to defraud the State, county, and Federal Government out of tax revenue.

We agreed to share the illegal proceeds, 75 percent my end, 25 percent their end. The deal was put on record with all five crime families, and I took care of the Colombo family share out of the illegal proceeds of my end.

Over the next 4½ years, the combined Russian-Iorizzo organization which I controlled defrauded the United States Government and the States and counties of New York, Connecticut, New Jersey, Pennsylvania and Florida out of hundreds of millions of tax dollars due on the sale of gasoline.

To give you an idea how lucrative the gas tax business was, it was not unusual for me to receive \$9 million in cash per week in paper bags from the Russians and Iorizzo. Our profits ran anywhere from 2 to 30 cents per gallon, and at one point, we were moving 400 to 500 million gallons per month. I will leave it to you to do the math.

During that time, I became very closely involved with the Russian group. I found them to be intelligent, possessing remarkable business instincts that they would not hesitate to use for illegal gain. As a result of their experiences living in Communist Russia, they have little respect for United States law and little fear of American prisons.

They would frequently approach me with other illegal business ventures and were eager to share in illegal deals I would propose to them, such as loan sharking, insurance fraud and securities fraud.

One of the business ventures we jointly entered into was buying a bank in Austria. The purpose of this transaction was to be able to use this bank to finance other organized crime ventures. I invested \$10 million from my end of the illegal gas tax profits in this bank.

Including the money invested by the Russians, the bank had a total of \$80 to \$100 million in assets. Bogatin later went to Austria, where he played an active role in operating this bank. Additionally, Iorizzo created a slush fund from Federal gas tax money, which he

kept in this Austrian bank. That account accumulated \$15 million when the Government seized it after Iorizzo's arrest.

I found the Russians to be a group that wanted to flex their muscles and would not hesitate to resort to violence when they felt it necessary to do so. They enjoyed the relationship with both myself and the Colombo family because it gave them power and recognition as a group to be reckoned with.

I did not find the Russian criminals to be a very structured group in comparison to the Italian La Cosa Nostra. They were very clannish, however, and the most financially successful Russian was looked up to by his comrades as their leader or boss. The boss was given a lot of courtesy and respect and in return provided the members of his group with opportunities to work for him and make money.

Michael Markowitz, David Bogatin and Lev Persits were all in a position of leadership and had about 200 other Russians working under them in various capacities. They were also continuously assisting other Russians in immigrating to the United States.

After I went to prison in 1985, my information was that Markowitz, Bogatin and Persits did continue to work with the Colombo family in the gasoline business for a short period of time.

Around 1988, Markowitz was shot and killed in front of his home in Brooklyn. I do not know who was responsible for his death. However, I am reasonably certain that the hit was authorized by the Colombo family and could possibly have been carried out by other Russians.

An attempt was also made on the life of Lev Persits. Although he survived the attempt, he is permanently disabled and confined to a wheelchair today.

David Bogatin fled to Austria, where he had a controlling interest in the bank that was funded with gasoline tax money from our operation. He was captured in Poland, extradited to the United States to face tax fraud charges and is currently serving a Federal prison sentence.

I have provided the Subcommittee with a basic overview of my personal experience with Russian immigrants engaging in criminal activities during the 1980's. I hope this information is helpful, and I would be happy to answer any questions the Subcommittee might have.

Thank you.

Senator ROTH. Thank you, Mr. Franzese. You stated that in your opinion, these fraudulent measures with the fuel tax continue. Does it continue on as large a scale as in the past?

Mr. FRANZESE. I do not believe so. I believe that once the law was changed, the volume and the methods decreased. But I am told—I was recently released from prison in 1994, and I met several people who had still been dealing with the Russians, and I am told that especially in New York, the gas tax scheme was continuing as late as 1994.

Senator ROTH. And on a fairly large scale?

Mr. FRANZESE. Yes, on a large scale, but not quite as large as it was in the 1980's.

Senator ROTH. At the peak of your gas tax business, how many gas stations were involved?

Mr. FRANZESE. I would say well over 600 stations, and it could have been close to 1,000 gas stations that we operated or sold gas to.

Senator ROTH. And how many of those were brand name stations?

Mr. FRANZESE. Approximately a third.

Senator ROTH. How were you first introduced to the Russians?

Mr. FRANZESE. I met the Russians through a soldier in my organization. The Russians had gone to him, asking if he could help them collect a debt. They were owed \$70,000. This fellow, whose name was Vinnie, came to me and asked my permission to assist the Russians, and I told him he could do it. At that point, they asked to meet me personally, and a meeting was set up.

Senator ROTH. Now, you testified that you provided the Russians with protection from other organized crime families and muscle to collect their debts. What exactly did you do in each of these areas?

Mr. FRANZESE. Well, as far as collecting the debts, I just made sure that any gasoline stations or other wholesalers that they serviced would pay the money that was due them. And as far as protecting them from other organized crime groups, I put them on record with every other family that they were with me and part of my operation and that no one else was to try to muscle in on them or try to do business with them.

Senator ROTH. If the Russians brought this business to you, how did you come to the decision that there would be a 75-25 percent split?

Mr. FRANZESE. I explained to them that we were taking most of the risk, we were securing the license, and that I had to take care of the rest of the Colombo family and, quite honestly, I knew that to a large degree, they controlled some of the money, and there was a lot of stealing going on amongst each other. So I just rounded it off to 75-25 percent, and they were satisfied with that.

Senator ROTH. Out of the 75 percent you took, how much did you keep and how much went to the Colombo family?

Mr. FRANZESE. About one-third went to the Colombo family. The other two-thirds was split among myself and the various people that I had working in the operation.

Senator ROTH. Since Markowitz was such a big money-maker for you and the Colombo family, why was he killed?

Mr. FRANZESE. I believe for two reasons. Number one, he was reluctant to work with the rest of the Colombo family once I went to prison. And I also understand that he might have been cooperating with Federal authorities.

Senator ROTH. Do you have any insights as to how Russian organized crime is developing in this country? Do you have any knowledge as to how they are cooperating with more traditional, established organized crime families?

Mr. FRANZESE. I could only speak of my own experience, that they were very willing to cooperate with our group, La Cosa Nostra. They were not interested in trying to fight with us; they would rather share proceeds. They had no problem with working along with us. And from my understanding, they are continuing to operate in that way today.

Senator ROTH. Senator Cohen?

Senator COHEN. Had the Colombo family not thought of the fuel tax scam previously, before the Russians arrived?

Mr. FRANZESE. The Colombo family had not. I actually introduced this to the Colombo family when Iorizzo came to me originally, and we had developed this scheme, and to my surprise, I found out the Russians were also doing it when I met them; they just did not have the muscle to collect their money, and they did not have the availability of the licenses that were needed.

Senator COHEN. I am just curious as to why you would want to share any part of the market with anyone. In other words, you have an established organized criminal group; why would you want to share on a 75-25 or 50-50 or any percentage basis? If you have an idea, and you have the organization, and you have the muscle yourself, why would you want to let another group come in and take a portion of it?

Mr. FRANZESE. Well, the way the transaction worked, the Russians had about 300 stations themselves that they were supplying. So by allowing them to write off on our license, we obtained proceeds from those 300 stations that we would not ordinarily have had.

Senator COHEN. In other words, they were already in the business, and this was just a pure business decision to share the wealth at that particular point.

Mr. FRANZESE. Yes.

Senator COHEN. But if I were to come up now as a result of listening to your testimony and others, and say, "Hey, I've got a great idea of how to scam the Government," would I find resistance from organized criminal elements to my entering the marketplace?

Mr. FRANZESE. I do not believe so. If you brought profit to the table, I do not believe there would be any resistance at all.

Senator COHEN. If I have an idea, and I do not have the muscle, they would be willing to allow me to enter the marketplace?

Mr. FRANZESE. I believe so, yes.

Senator COHEN. So there was no fear on the part of the existing organized criminal groups that they would have to deal with the violent element in the Russian gangs; was that not a factor?

Mr. FRANZESE. There was no fear at all from La Cosa Nostra, no. They were not worried about that. I found the Russians to be actually kind of submissive to us. Although I found they would not hesitate to be violent amongst each other, I thought that they were really worried about us, and I thought they were fearful of us as a group, and therefore they would rather align with us than fight with us.

Senator COHEN. You also indicated that the Russians have no fear of our laws as such; right?

Mr. FRANZESE. Yes. They indicated to me that Russian prisons were hell and that the prisons here in America were like clubs, and the laws in Russia were very strict. As a matter of fact, I know Bogatin had done some time, and I think both Markowitz and Persits had experienced Russian prisons. So they had no fear whatsoever of the law or the prison system here.

Senator COHEN. And that would continue to be the case today, then?

Mr. FRANZESE. I believe so. I do not know why it would change so dramatically.

Senator COHEN. What might be hard time for you might not be hard time for someone else.

Mr. FRANZESE. According to them, that is correct.

Senator COHEN. Do you know whether they are tied to other organized criminal groups of the Sicilians, the Colombians? Are they engaging in narcotics traffic in cooperation with other existing groups?

Mr. FRANZESE. I do not know that from my own personal knowledge, no.

Senator COHEN. Do you know whether the new Russian organized criminal elements coming into the United States are more violent than the existing ones?

Mr. FRANZESE. I am hearing that they are more violent, yes.

Senator COHEN. And also more sophisticated in terms of their capabilities?

Mr. FRANZESE. Well, I thought the group that I was with was very sophisticated. Markowitz had several educational degrees. He was an engineer. He had developed a taxi meter, a computerized meter, that I think was first introduced in New York. I found them to be very intelligent even at that time.

Senator COHEN. I was going to bring this out in the previous panel, but my understanding is that the FBI is looking for a few good men and women, particularly with backgrounds in math and computer science, in order to combat the sophistication of the crime groups that are coming in.

Mr. FRANZESE. Yes.

Senator COHEN. And I guess we are going to have to do that for the IRS and the FBI and all the other elements involved, because as criminal groups become more sophisticated, as they move into cyberspace, as they are able to engage in computer hacking, allowing them to access the vaults of various banks here in the United States and worldwide and with a stroke of a key on a computer, funnel off millions of dollars in a matter of seconds, we are going to need more sophisticated methods of combating these criminals. So that is something that I think we also have to focus on.

Mr. FRANZESE. Yes, sir. One other thing that I noticed is that when the Government changed the gasoline law and they made the responsibility of collecting taxes, they shifted it from the retailer at the gas station level to the wholesaler, and they thought they were going to put everybody out of business. But what I found is that they advertised the fact that they were going to do that over several months—they made it public—and by the time they changed the law, we had a perfected scheme that made it even more lucrative than the one we had before. So I think maybe some kind of concealment in that regard might be helpful.

Senator COHEN. Do you think we can pass laws in a concealed, covert fashion?

Mr. FRANZESE. I do not know. I do not know.

Senator COHEN. I think I have already answered the question.

Mr. FRANZESE. Yes.

Senator COHEN. Thank you, Mr. Chairman.

Senator ROTH. Thank you, Senator Cohen.

That will be all Mr. Franzese. Thank you.

Mr. FRANZESE. Thank you.

Senator ROTH. Our next witness is Anthony Casso, who is a former underboss of the Lucchese organized crime family. Mr. Casso is currently in Federal custody and cooperating with the Government while awaiting sentencing.

Given the sensitive nature of Mr. Casso's position as a cooperating witness, we have agreed to limit his testimony to matters relating to Russian organized crime, and we would appreciate the cooperation of all Subcommittee members in abiding by this understanding.

Mr. Casso was scheduled to testify openly; however, as a result of last-minute concerns raised by the Department of Justice, Mr. Casso will testify from behind a screen. It is my understanding that members of the media have already been advised as to those locations in the hearing room where cameras will and will not be permitted during the course of the testimony in order to maintain security.

Prior to the entrance of this witness, I direct that all cameras be turned to face either to the ceiling or to the window side of the hearing room. I will ask the Capitol Police whether all cameras have been redirected. And I would then ask the Capitol Police to secure the hearing room, and when that is done, the witness will be brought in.

We will proceed in just a minute.

Mr. Casso, we swear all witnesses before the Subcommittee, but I would ask that you remain seated while I administer the oath.

Mr. Casso, please raise your right hand. Do you swear or affirm that the testimony you will give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

I do.

Senator ROTH. Mr. Casso, are you represented by counsel today, and if so, would counsel please identify yourself and your firm for the record.

Mr. BRIEF. Matthew Brief, B-r-i-e-f, Brief, Kesselman, Knapp and Schulman.

Senator ROTH. Mr. Casso, would you please proceed with your testimony?

TESTIMONY OF ANTHONY CASSO,¹ FORMER UNDERBOSS, LUCCHESE ORGANIZED CRIME FAMILY, ACCOMPANIED BY MATTHEW BRIEF, LAW FIRM OF BRIEF, KESSELMAN, KNAPP AND SCHULMAN

Mr. CASSO. Good afternoon, Mr. Chairman and Members of the Subcommittee. My name is Anthony Casso. Early in my life, I was given the nickname of "Gaspipie."

I have been in jail since 1993, when I was arrested after being a fugitive for almost 3 years. At that time, I was the underboss of the Lucchese organized crime family. Ultimately, I decided to cooperate rather than go to trial.

¹ The prepared statement of Mr. Casso appears on page 170.

As part of my deal with the Government, I pleaded guilty to a 72-count indictment, including murder, racketeering and extortion. I have not yet been sentenced, and no promises have been made to me for my testimony here today.

As part of my cooperation agreement, I told the Government about my life of crime. I gave a deposition for use in an Israeli trial, but I have not yet testified at a trial in the United States. I will testify if requested by the Government at upcoming organized crime trials.

I have been involved with organized crime for more than 35 years, since I was a kid working on the docks in Brooklyn, New York. When I was 21, I became associated with a guy named Chris Furnari of the Lucchese organized crime family. Everyone knows him as "Christy Tick."

Before I was arrested this time, I had only been in jail once. That was in 1962 for 5 days, when I was convicted of running a book-making operation on the docks and was fined \$50. After that, I was arrested several times for different Federal and State charges including assault with a gun, selling stolen property, dealing heroin, burglarizing a bank, and bribing State parole officers. In every case, I was either acquitted, or the charges were dropped.

In the early 1970's, I met Vic Amuso. Then, in 1974, I became a "made" member of the Lucchese family. Vic was "made" in around 1977. At that time, "Tony Ducks" Corallo was the boss of our family. But in 1986, Tony Ducks went to jail, so he had to name a new boss. I became a "capo" in 1986.

After discussions within the family, Tony Ducks made Vic Amuso the boss at the end of 1986. At the end of 1987, Vic told me I was the new consiglieri. Then, in 1989, Vic named me the underboss of the family. After Vic was arrested in July 1991, I ran the Lucchese family as underboss while I was a fugitive.

In my position as a member of the Lucchese family, I came to know individuals associated with Russian organized crime, which is the subject I have been asked to testify about today.

In the mid-1980's, our family got involved with Russian organized crime in the gasoline business in Brooklyn. Italian and Russian organized crime made large amounts of money by working scams to avoid paying taxes on gasoline. The Russians owned hundreds of gas stations and controlled the supply and distribution of gasoline. We provided them with protection they needed to maintain a cartel. We also helped them set up corporations to work the scam.

The main Russian guy working with our family was Marat Balagula. Marat was one of the early leaders of Russian organized crime in Brooklyn. He made millions off the gas tax business, and our family made a lot of money with him.

In around late 1986, another Russian named Vladimir, whose last name I did not know at the time, came up to Marat in a Russian restaurant in Brighton Beach. Vladimir had recently arrived in Brighton Beach from Russia. According to the Russians, the word on the street was that he was a tough guy with his own crew. Marat told me Vladimir pulled a gun, put it next to Marat's head, told Marat that he was his new partner, and demanded Marat pay him \$600,000, or Marat would be dead.

Marat reached out to us and told us what happened. We agreed to meet him the next day. When we went to Marat's house, we found out that he was so scared that he had a heart attack but did not want to go to the hospital. I remember seeing Marat in bed, hooked up to all kinds of machines, refusing his doctor's orders to go to the hospital. Marat's guy wanted us to kill Vladimir.

Since Marat was with our family, and especially since he was such a moneymaker for us, this was not just a threat against Marat; this was a threat against the Lucchese family as well. We knew what we had to do.

Vic and I agreed that Vladimir had to be killed. We took this situation to Christy Tick, who agreed that we could have Vladimir killed. Vic gave the hit to Joey Testa.

We asked Marat and one of his guys to get us some information to identify Vladimir. One of Marat's guys got us his picture and license plate number. We had Marat call Vladimir and arrange to have lunch with him at the same Russian restaurant in Brighton Beach where Marat was threatened. After leaving the restaurant, Vladimir was shot and killed.

I heard about the murder on the radio. Marat was very thankful that we had gotten rid of this problem. We could not let somebody try to put the squeeze on one of our family's biggest moneymakers. After that, Marat did not have any more problems from any other Russians.

I found the Russian organized crime groups to be very clever. We knew the Russians were involved in heroin trafficking as well as complicated scams involving forgery, and tax evasion in the oil and gas business. The Russians were also very willing to use violence to achieve their goals.

I will be happy to answer any questions you have about my knowledge of Russian organized crime.

Senator ROTH. Mr. Casso, at this time, do you know the man you identified in your statement as "Vladimir" to be Vladimir Reznikov?

Mr. CASSO. Yes, I do.

Senator ROTH. And in addition to the murder you just described in previous testimony, we have also been told of another murder in Brooklyn of a Russian organized crime figure who worked with La Cosa Nostra in the gas tax scam, that is, the killing of Michael Markowitz who worked with the Colombo family. What were the facts surrounding this murder, and describe any discussions you had with anyone in the Colombo family regarding the Markowitz murder?

Mr. CASSO. I had discussions with the Colombo boss, Vic Orena and a Colombo soldier, Frankie "The Bug" Sciortino.

Senator ROTH. Would you please speak into the microphone?

Mr. CASSO. And I knew the Markowitz murder was going to take place sooner or later, that they were working on planning on killing Markowitz.

Senator ROTH. Now, you testified that the Lucchese family provided protection to Russian organized crime in the gas tax scheme. Specifically, what protection service did your family provide for the Russians?

Mr. CASSO. We provided that no one would go into their territory and sell gas, and made sure people paid them the moneys they had coming to them. And we would make it known that they belonged with us, our group, and no one would bother them at all.

Senator ROTH. Now, you testified that Marat Balagula was a leading figure among Russian organized crime in Brooklyn. Why would he contact you after he was threatened by another Russian?

Mr. CASSO. Because Marat was with our family, so the proper thing to do was just what he did, to contact us to handle it.

Senator ROTH. Where is Balagula today?

Mr. CASSO. He is in Federal prison, I believe.

Senator ROTH. Did Balagula actually ask you to have Reznikov killed, or simply to make him back off?

Mr. CASSO. No; he wanted him killed. He was deathly afraid of him.

Senator ROTH. Did you receive any payment for killing Reznikov?

Mr. CASSO. None whatsoever.

Senator ROTH. Was Joey Testa given any payment for killing Reznikov?

Mr. CASSO. None.

Senator ROTH. Now, you testified about pleading guilty to a 72-count indictment, including murder, racketeering and extortion. How many murders?

[Pause.]

Mr. CASSO. I believe 16.

Senator ROTH. I am sorry, I could not hear you.

Mr. CASSO. I believe 16.

Senator ROTH. Was Joey Testa every charged with killing Reznikov, and where is he today?

Mr. CASSO. He was never charged with that murder, and he is at a Federal prison also.

Senator ROTH. Now, you stated that you are a "made" member of the Lucchese family. Would you please explain what that means and describe the initiation ceremony by which you became a "made" member?

Mr. CASSO. To become a "made" member, you have to be sponsored by a captain of the family, who would bring you to the boss of the family and sponsor you to become a "made" member. They have a ceremony with the boss, the consiglieri, and the underbosses present at that time, and the captain who brings you in.

They prick your trigger finger and make it bleed, and then they put it on a little piece of paper; they set it on fire, and you burn it in your hand, and you repeat after them that you will never betray La Cosa Nostra, or you will burn like the paper is burning in your hand. And your life does not belong to you anymore; your life belongs to them.

Senator ROTH. Now, we know that the Luccheses were not the only organized crime family involved with the Russians in the gas tax business. What role did you play in getting other La Cosa Nostra families involved in this gas tax scam?

Mr. CASSO. Well, what we did was—the Colombo boss came to see me, and we put it together—the Russians wanted to put it together so there was no more problem, the Russians would get paid,

and everyone would not steal each other's stops, and put everything above board.

So the Genovese family had a branch in the gasoline business also, with their own group of Russians. What I did was I reached out for the Genovese family; I met with them, I met with their underboss. I told them we wanted to have a meeting with the Colombo family, the Lucchese family and the Genovese family, and that the people we have running the gasoline business for us who go up front and handle this every day with the Russians have a meeting, and let us all make this one; we will put it together, and everyone earns an equal share. And this is what we did.

We had this meeting. They agreed. We put it together. Being that everyone agreed, we turned around, and we told the Russians that they would have to pay a tax of a penny a gallon to us, to our three families, which totalled maybe \$500,000 a month. And they agreed upon this; they were very happy because they could run their business without having a problem from anyone.

So now we had three families involved. We had the Genovese family, the Luccheses, and the Colombo family. And we ran like that until about 1988. In 1988, the Gambino family wanted to get involved. They also had a Russian group that they were working with, but in a little smaller way, and that group was interfering with what we put together.

So we took it upon ourselves—we had another meeting about the Gambino family and if we were going to invite them into the cartel that we put together, which we did; we made it a 4-way split. And we had four groups—the Gambinos had a Russian group, the Luccheses had their own Russian group, the Colombos had Markowitz and his Russian group, and the Genovese family had their own. We just combined it like that, and it was running smooth.

Senator ROTH. Do you know if these kinds of agreements are still in effect?

Mr. CASSO. In the present, as far as I know, yes.

Senator ROTH. As far as you know, yes?

Mr. CASSO. Yes.

Senator ROTH. Are you aware of any other murders committed by the La Cosa Nostra families on behalf of Russian organized crime in connection with gas tax schemes?

Mr. CASSO. I know there were a couple of murders with Russians with the Gambino group, but I do not really know their names. But I know a couple of murders took place with them, with their group.

Senator ROTH. How would you characterize the Russians as business partners?

Mr. CASSO. They are good businessmen. They are good businessmen, and as far as money-wise, whatever you have coming to you, they always made much more money than they gave organized crime, than we got. But we always knew that.

Senator ROTH. Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

Mr. Casso, how did you get the name "Gaspipe"?

Mr. CASSO. They have been calling me that since a very early age, when I was a teenager. It was like a family name, and being that I was the youngest out of 3 children, it stuck with me.

Senator COHEN. No association with your activities, the nickname?

Mr. CASSO. None whatsoever.

Senator COHEN. You mentioned going to the hierarchy of authority when Senator Roth asked you why Marat came to you as such. You said he was just simply proceeding on a line of authority, basically, that it was the proper thing to do. So you had your own organizational structure, since you were the enforcers, basically, or the protectors of Marat, I assume.

Mr. CASSO. Yes, right.

Senator COHEN. OK. Do the Russian criminal gangs have the same sort of hierarchical structure as any one of the Italian families as such—the Gambinos, the Colombos, the Luccheses? Do they have capos, consiglieris, underbosses, boss—do they have anything like that?

Mr. CASSO. Not really.

Senator COHEN. So they are not structured?

Mr. CASSO. Not in this country.

Senator COHEN. Not in this country.

Mr. CASSO. No. They have gangs, or their own crews, the Russians, and mostly they are violent among themselves. This is why we handled it. We would never want Marat to go and get someone else, hurt someone else. We would rather him come, because maybe there is no need to hurt someone else. Maybe this is a situation where you can talk to someone and resolve the problem. But the Russians are not that way; they are a little hot-headed, and they are a little violent sometimes.

Senator COHEN. You indicated in your statement that they are not afraid to use violence. Do you mean they are not afraid to use violence against one another?

Mr. CASSO. Right.

Senator COHEN. But they would not use violence against the Lucchese family members?

Mr. CASSO. No.

Senator COHEN. Why do you think they had to come to you to get protection—they do not have enough muscle as such of their own that they would simply say, "We don't need to pay you a penny a gallon for our protection"?

Mr. CASSO. It is not only protection; it is putting it together because, like Marat, he owned a couple of hundred gas stations. So when we put the cartel together, now no one else was going to go into his stations to sell gas a little cheaper, just to sell the gas, and they start fighting amongst themselves again. So we held peace, and, you know, protection goes more than one way.

Senator COHEN. And you indicated, finally, that the Gambino family came in toward the tail-end of this arrangement because they had a Russian connection as well. If another family comes along with a Russian connection, will they keep expanding the business?

Mr. CASSO. No. To be honest with you, we just barely let the Gambino family in.

Senator COHEN. OK. That is all I have, Mr. Chairman.

Senator ROTH. Thank you, Senator Cohen.

That is all that we require of you, Mr. Casso.

I would ask that all spectators remain seated until the witness leaves the hearing room, and I would now direct the Capitol Police and the Marshals to accompany Mr. Casso from the hearing room.

Our next witness is a Russian criminal currently incarcerated in the United States. Again because of security concerns, the witness will be testifying anonymously from behind a screen to protect his identity.

As I said before, it is my understanding that members of the media have already been advised as to those locations in the hearing room where cameras will and will not be permitted during the course of this testimony, in order to maintain security. Prior to the entrance of this witness, I direct that all cameras be turned to face either to the rear or to the window side of the hearing room. I would ask the Capitol Police whether all cameras have been redirected and whether the hearing room is secure so that the witness may be brought in.

Please bring him in.

I would say to the witness that we swear all witnesses who appear before the Subcommittee. I would ask that you remain seated while I administer the oath. Please raise your right hand.

Do you swear or affirm that the testimony you will give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

ANONYMOUS RUSSIAN CRIMINAL. Yes, I do.

Senator ROTH. Please proceed with your testimony, and pull the microphone closer and speak up a little louder.

TESTIMONY OF AN ANONYMOUS RUSSIAN CRIMINAL¹

ANONYMOUS RUSSIAN CRIMINAL. Chairman Roth, Members of the Subcommittee, good afternoon.

I have been asked to testify today about Russian organized crime in the United States, a problem which exists in several cities and is likely to grow.

Let me explain the two reasons why I am able to speak on this subject. First, I grew up in Russia with people who are now leaders of criminal groups worldwide, including here in the United States. My father was a high-ranking officer in the Soviet military, and so as a boy, I attended the best schools and socialized with the Community Party elite. My classmates included many future politicians and criminal leaders.

Second, since 1992, I have lived in the United States and know many of the Russian criminals who have settled here. Some of these men, such as Leonid Zuza and Vyacheslav Kirillovich Ivankov, or "Yaponchik," might be familiar to you. They are to me. What you have to understand is that the well-to-do Russian community in this country is rather small and that the successful Russian criminals are part of it.

Through my business and social contacts, I was a part of this community, but I have been in prison for the past year. I am serving a sentence for the possession of a firearm, which violated the terms of my probation agreement. I am testifying behind this

¹ The prepared statement of the Anonymous Russian Criminal appears on page 172.

screen today because I believe that if my identity were known, I or my family might be killed.

To understand Russian organized crime in this country, you must first appreciate the situation in Russia. For the 2 years prior to my arrival in the United States, I set up and ran the Moscow branch of an American corporation specializing in investments and international trade. We had a beautiful office 3 minutes from Red Square.

Now, there are two things you must do to operate a business successfully in Moscow. First, you must pay the right government officials under the table. Because I had known officials in Moscow since I was a child, figuring out whom to pay was simple. To set up our office so close to Red Square, I had to pay money to the chief of government property in Moscow. Later, when we wanted to open a supermarket in Moscow, I paid cash to the mayor of Moscow, Yuri Luzhkov.

The second thing you must do to run a successful business is purchase a "krisha," literally, "roof," in Russian, which has come to mean protection. The more important you are, the higher the roof must be. In Moscow, organized crime provides the roof.

Back in 1990, I could pay one organized crime group, say, 10 to 20 percent of our profits, and it would make sure that I did not have trouble with any other groups.

There was crime, but at least it was orderly. Leaders of the major organized crime groups in Moscow would meet regularly to divide up opportunities. But as time went on, things got out of control. Fighting broke out among the organized crime groups in Moscow, and several of the leaders were assassinated. Otari Kvantrishvili, at that time the most powerful organized crime figure in Moscow and a friend of mine, was the first to be killed. Several others followed. Most of these men were "vory v zakone," a title reserved for powerful Russian godfathers.

As I said, things got out of control. I did not know which roofs to pay and which were safe to ignore. Men were showing up regularly and demanding protection money. I came to the United States to escape this turmoil, and I can tell you that many criminals have as well. Some are thugs who worked as enforcers or muscle in groups based in Russia. These men are responsible for much of the violence that has taken place in Brighton Beach and other communities where Russians are concentrated in this country.

These men are also disorganized and looking for a leader to devise a profitable criminal venture; someone like Ivankov. These are dangerous men, but would be far more so behind a clever leader.

There is a difference between the Russian criminal who immigrates to the United States today and the one who came in the 1970's and 1980's. Fifteen years ago, Russian immigrant criminals were on the whole smarter than today's lot. The schemes they executed—Balagula's fuel tax evasion, the medical insurance fraud of the Smushkevich brothers—made them millionaires. As I said before, most of the current wave of Russian ms is more prone to violence, but less resourceful than their predecessors. Whether or not they left Russia with money, they will run out, and they will be looking for ways to make more.

Russian organized crime in this country includes criminals from both immigrant waves. They are involved in a number of illegal activities, many of which I understand you have heard about earlier today. These range from money laundering to extortion to car theft to drug smuggling to insurance and gas tax fraud to murder. Some of these crimes, I know about specifically.

For example, I know of Russian criminals in this country who ship guns and cocaine back to Russia. These men have beautiful offices in Rockefeller Center and Beverly Hills and look like legitimate businessmen. They run import-export businesses funded by the mafia over in Moscow. Much of what they trade in is legal, but much is also illegal.

For instance, they purchase cocaine in the United States for \$20 to \$30 a gram and sell it in Moscow for \$100 to \$150. In Moscow, cocaine is a habit of the very rich, which means only three types of people can afford it—newly-rich businessmen and politicians, prostitutes, and criminals.

I know of murders as well. I knew Oleg Koratayev, the famous Russian boxer who was shot and killed in Brighton Beach outside the Arbat Restaurant. I know also that in the summer of 1994, Leonid Zuza ordered the murder of another ex-boxer named "Dmitry" because he refused to pay Zuza \$17,000 he owed him. The killer, a Russian named "Vladimir" who worked for Zuza shot Dmitry on a patio outside a cafe on Melrose Avenue in Los Angeles.

I also know about extortion, which Russian criminals practice all over the world, mainly on fellow Russians. I myself was approached by a group of Russian criminals. They showed me pictures of my family. They did not have to tell me why. What they meant was that if I did not pay them money, my family would be harmed or killed. They demanded tens of thousands of dollars. The leader of the group came to my house one night to collect this money from me, but I had a shotgun in my house, and he chose to leave.

Professional hockey players from the former Soviet Union are also victims of extortion. And the extortion does not just happen in Moscow or Kiev; it happens here. Alexander Mogilny, who plays for the Vancouver Canucks, was threatened by Sergei Fomitchev, a man I know. Fomitchev had helped Mogilny come to this country. A couple of years ago, Fomitchev came to Mogilny, threatened him and demanded money. Mogilny was scared and went to the police, who caught Fomitchev before anything happened. Fomitchev has ties to Russian organized crime groups.

Often, when a Russian criminal demands money, the threat is not explicit, but it is clearly understood. Alexei Zhitnick, a defenseman for the Buffalo Sabres, used to play for the Los Angeles Kings. He showed up at a Russian club in Los Angeles one night with a new car, expensive clothes and beautiful women. He was young and naive.

A man named Sasha, whom I know is connected with a Russian criminal group, approached Alexei and demanded money from him. Sasha was sending Alexei a warning, to make sure he thought about his future in Los Angeles. Alexei did not go to the police. Instead, he went to a more powerful criminal group to take care of the problem for him, which I understand it did.

I also know Vladimir Malakhov, who plays for the Montreal Canadiens, but used to be with the New York Islanders. He was approached in the National Restaurant in Brighton Beach by a man who worked for Ivankov. The man demanded money from Malakhov. He did not have to threaten him explicitly; the message was clearly understood. Malakhov spent the next months in fear, looking over his shoulder to see if he was being followed, avoiding restaurants and clubs where Russian criminals hang out. Fortunately, the problem went away when Malakhov was traded to Montreal.

These are just a few stories to illustrate the illegal activities of Russian organized crime in the United States. What we have here cannot compare to the criminal activity and structure in Russia. But what we have here is a problem that is growing. Just last week, I heard that another "vory v zakone," or Russian godfather, recently arrived in the United States. As I said, when leaders arrive, the problems will multiply.

I am happy to answer your questions.

Senator ROTH. You stated that there are companies in the United States exporting weapons and drugs to the former Soviet Union. What kind of weapons are being shipped, and who is buying them?

ANONYMOUS RUSSIAN CRIMINAL. The most recent from the United States to Russian are shotguns and handguns, a lot of equipment like bulletproof vests and walkie-talkie radios.

Senator ROTH. And who is buying them?

ANONYMOUS RUSSIAN CRIMINAL. These weapons are bought by criminal groups and new businessmen.

Senator ROTH. Now, you testified about the money paid to government officials before you could open a business in Moscow. Would an American businessman who wanted to set up an office in Moscow also have to bribe the appropriate official?

ANONYMOUS RUSSIAN CRIMINAL. Yes; usually, it is more through his business connections and his business partners.

Senator ROTH. You testified about the extortion in this country of hockey players from the former Soviet Union. There have been reports that players or their families have also been threatened when they return home to the former Soviet Union during the off-season. Is that correct?

ANONYMOUS RUSSIAN CRIMINAL. Yes, sir.

Senator ROTH. And in the case of the professional hockey player, Alexei Zhitnick, why didn't he go to the police after he was threatened?

ANONYMOUS RUSSIAN CRIMINAL. Because he does not trust police; nobody trusts police in Russia. He would just go to a powerful criminal group to protect him.

Senator ROTH. No trust in the police because of his past?

ANONYMOUS RUSSIAN CRIMINAL. Yes.

Senator ROTH. You testified that many of the criminals who have arrived not long ago in the United States are more violent than the older generation of criminals from the former Soviet Union. What has caused this change?

ANONYMOUS RUSSIAN CRIMINAL. Because the new criminals who are arriving in the United States are less educated, more violent and disorganized, and they are ready for any job to make money.

Senator ROTH. You also stated that you heard of a Russian godfather who recently arrived in the United States. Who is the person you are referring to?

ANONYMOUS RUSSIAN CRIMINAL. His name is Vladimir, nicknamed "Rezni"; he is a godfather and friend of Ivankov.

Senator ROTH. We have heard testimony that Ivankov is one of the most powerful Russian organized crime figures to come to the United States. Why did he come to this country?

ANONYMOUS RUSSIAN CRIMINAL. To my understanding, I think there are two reasons. The first is to try to escape from Russian law enforcement, and the second is because he does not want to be killed, like a lot of his friends.

Senator ROTH. In your testimony, you observe that fighting among organized crime groups in Russia is causing criminals to come to the United States. What is causing this turmoil?

ANONYMOUS RUSSIAN CRIMINAL. They are fighting for power and for territory.

Senator ROTH. Power and territory?

ANONYMOUS RUSSIAN CRIMINAL. Yes, sir.

Senator ROTH. Do Russian criminals located in different U.S. cities communicate with each other, and is there communication between criminals in Russia and those in the United States?

ANONYMOUS RUSSIAN CRIMINAL. Yes. Several groups in New York and Seattle will fly and meet each other to look for business opportunities. I know that Ivankov flew several times from New York to Los Angeles and back.

Senator ROTH. How are Russian criminals able to get into the United States?

ANONYMOUS RUSSIAN CRIMINAL. It is very simple. They probably can buy phony passports for \$200 or \$300 and get visas at the U.S. Embassy, probably, in the commercial section of the U.S. Embassy, and come to the United States.

Senator ROTH. Those are all the questions I have. Prior to your exit, again I want to direct that all cameras be turned to face either to the rear or the window side of the hearing room. I will ask the Capitol Police whether all cameras have been redirected.

I will now ask the Capitol Police and the Marshals to accompany the witness from the hearing room.

Senator ROTH. Our final witnesses are a panel of local law enforcement officers who specialize in investigating Russian organized crime cases in the United States. One of these witnesses is an undercover officer who will be testifying anonymously from behind a screen and with the benefit of voice distortion to protect his identity.

Again, it is my understanding that members have been advised as to the locations in the hearing room where cameras will and will not be permitted during the course of this testimony in order to maintain security. So at this time, I direct that all cameras be turned to face either to the rear or to the window side of the hearing room and ask the Capitol Police whether all cameras have been so directed.

The hearing room is secure, and the witness may be brought in.

The other witnesses on this panel are Detective Dan Mackey and Ralph Cefarello of the New York City Police Department, and Detective William Pollard of the Los Angeles Police Department.

Gentlemen, it is a pleasure to welcome you. As you know, we swear in all witnesses. Again, I would ask the witness behind the screen not to stand for the swearing in; the others, I would ask to please stand and raise your right hand.

Do you swear or affirm that the testimony you will give to the Subcommittee today is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. CEFARELLO. I do.

Mr. MACKEY. I do.

Mr. POLLARD. I do.

Anonymous Witness. I do.

Senator ROTH. Thank you, gentlemen. Please be seated

We will begin our testimony with Detective Mackey. Again, I will ask you to summarize; your full statement, of course, will be included in the record as if read.

**TESTIMONY OF DANIEL MACKEY AND RALPH CEFARELLO,¹
DETECTIVES, NEW YORK CITY POLICE DEPARTMENT**

Mr. MACKEY. Good afternoon, Chairman Roth, Senator Lieberman and Members of the Permanent Subcommittee on Investigations. My name is Detective Daniel Mackey of the New York City Police Department. On behalf of myself and my colleague, Detective Ralph Cefarello, thank you for this opportunity to testify about Russian/Eurasian criminals operating in New York City and what is being done to stop them.

Previous speakers have given you international and national perspectives. Our view of this most serious crime problem is that of working detectives, catching cases involving suspects and quite often victims who were born in the former Soviet Union.

I work in a precinct detective squad that covers Brighton Beach, Brooklyn. Since the late 1970's, Brighton Beach has become home to an ever-growing number of Russian-speaking immigrants from a variety of former Soviet republics, including Georgia, Azerbaijan and Chechnya. The great majority are hardworking, law-abiding citizens who have revitalized a neighborhood that has come to be known as "Little Odessa." Brighton Beach Avenue is lined with thriving markets, restaurants, nightclubs, clothing and video stores that all cater to Russian-speaking customers. It is possible to go about your daily business in Brighton Beach without uttering or reading one word of English.

Unfortunately, Brighton Beach is also a hub for Russian-born criminals with a well-deserved reputation for extreme violence. Their criminal activities include vicious murders and assaults, extortion of Russian-owned businesses, prostitution, illegal gambling, and a vast collection of frauds and schemes that ravage the economy, causing government, businesses and consumers millions of dollars.

We have encountered staged motor vehicle accidents in which all participants claim back and neck injuries, then file insurance

¹ The prepared statement of Mr. Mackey and Mr. Cefarello appears on page 179.

claims for medical services provided by Russian-operated medical groups also believed to be in on the scam. Additionally, we have, in joint operations with the United States Secret Service, dismantled sizeable cellular phone-cloning networks run by Russian/Eurasian nationals.

While we have had some success, it is often difficult, and frankly, quite frustrating to investigate these illegal activities—for the same reasons it has always been difficult and frustrating to investigate crimes committed within a closeknit immigrant community. To a large extent, the criminals count on language as a barrier as well as a presumed reluctance on the part of fellow immigrants to cooperate with the police, especially if the police in their homeland were viewed as agents of an oppressive regime.

The NYPD has relatively few police officers and investigators who are fluent in Russian. The language barrier may hinder an investigation in several ways. The first officers or detectives to arrive at a crime scene may have to scramble for translators. And it is tougher to field traditional undercover operations used in public morals cases.

For example, Russian-run brothels are extremely lucrative but do not cater to non-Russian clients. We have attempted to use undercover "Johns" who do speak Russian, but even they require an introduction from a credible go-between, which has proven difficult to obtain.

We have investigated numerous cases involving the extortion of Russian-owned businesses, sometimes referred to as "window insurance" or "protection money." It is not uncommon for complainants in these cases to cooperate only up until the time an arrest is made, then refuse to follow through on the prosecution.

When the crime is murder, witnesses willing to cooperate are also scarce. At this time, I would like to introduce Detective Cefarello, who will provide a brief overview of our experience with murder investigations of Russian crime figures.

Senator ROTH. Detective Cefarello?

Mr. CEFARELLO. Good afternoon. My name is Detective Ralph Cefarello. I am currently assigned to a new citywide investigative unit specifically created to combat the criminal activity you are hearing about today.

In the past 15 years, there has been a total of 42 murders and 24 attempted murders in New York City known to be linked to Russian/Eurasian criminal organizations. Many of the murder victims served time in prison in the former Soviet Union or were known to engage in criminal activity there. Several were accomplished athletes in contact sports such as wrestling, boxing, or one of the martial arts. Commonly, the motive for these murders involved disputes over profits from illegal activities and turf battles over extortion rights.

Witnesses in these cases were often less than forthcoming. Take, for example, the murder in Brooklyn of a former Soviet heavy-weight champion. This individual, who was involved in strong-arm extortion and narcotics trafficking, was shot and killed in front of a Russian nightclub on Brighton Beach Avenue. He had been among some 75 guests at a private party. His killer had also been present during the festivities.

We talked to everyone who had been present at the party. The story was the same, interview after interview: No one saw or heard anything. No one could identify the victim. No one could identify his killer.

Despite these types of investigative obstacles, we have been able to clear 15 of these 42 homicides, and we expect to prosecute those responsible for numerous other murders pursuant to active RICO investigations with Federal prosecutors.

It is important to note that cooperation among local, State and Federal law enforcement agencies remains an essential ingredient of any successful strategy to address this problem. NYPD detectives meet regularly with representatives of other agencies. These information-sharing sessions have proven quite productive.

Finally, thank you for your interest in a crime problem we are working so hard to eradicate. We already enjoy the leadership and support of Mayor Rudolph W. Giuliani and Police Commissioner Howard Safir. Any additional Federal resources you could send our way would be greatly appreciated and well-used to permanently stunt the growth of Russian organized crime criminal activity on our shores.

Senator ROTH. Thank you, Mr. Cefarello.

Mr. Pollard?

TESTIMONY OF WILLIAM POLLARD,¹ DETECTIVE, ORGANIZED CRIME INTELLIGENCE DIVISION, LOS ANGELES POLICE DEPARTMENT

Mr. POLLARD. Good afternoon, Senator Roth, Members of the Subcommittee. I am Detective William Pollard, Los Angeles Police Department, Organized Crime Intelligence Division.

I will present abbreviated remarks regarding organized crime in the Los Angeles area, and I request that my full written statement be entered into the record.

"Russian organized crime" is a term covering more than 150 ethnic backgrounds and 120 languages. The common denominator is the Russian language, spoken by most due to the Soviet rule for 70 years or so.

Historically, in the greater Los Angeles area, the problem started in the mid-seventies when the Soviets released Russian Jews and Armenians, and they came to the United States as refugees. In these groups of emigres were criminal elements that, upon arriving here, continued their criminal activities. In fact, some of the emigres who were admitted as Jewish refugees were not even Jewish and had spent time in Russian prison. At the same time, Armenian refugees were also arriving in the United States with a similar pattern, having a percentage of criminals.

It is also believed that the Soviet Union used the refugee program to send KGB agents and operatives into our population.

Since the breakup of the Soviet Union, we see a much more diverse ethnic background in the criminal element coming here. Currently, the greater Los Angeles area has the second-largest Russian-speaking population, excluding Armenians, in the United States and the largest population of Armenians outside of Armenia.

¹ The prepared statement of Mr. Pollard appears on page 182.

The city of Glendale, which adjoins the city of Los Angeles, finds that 25 percent of their population is Armenian, with half of those being Soviet or Russian Armenian.

Along with our resident populations, there is a growing number of tourist or "shadow people," transient individuals who come and go, many times engaging in criminal activities. While in the past, no real structure was observed in the Jewish or Armenian groups, today, investigators from the Los Angeles Police Department and the Glendale Police Department see a growth of structures in several Armenian criminal groups.

Other Russian groups that still do not appear to have a structure in the United States seem to be arms of structured groups in the former Soviet Union. This lack of observable structure is the main reason why law enforcement in Southern California did not see organized crime as the upcoming problem it is today.

Over the years, what were first seen as career-type criminals committing extortions on their own and frauds against our society, with a small amount of violence, now commit very sophisticated, major frauds and a high degree of violence. Much of this is due to the background of the new criminal who may have been a KGB agent, a police officer, a politician, or a well-educated professional in his country.

A few years ago, the Glendale Police Department arrested a former police chief of the city of Yerevan, Armenia's capitol, on charges of extortion, rape, and kidnapping.

Some examples of the types of criminal activities that have been investigated by law enforcement in the greater Los Angeles area are the following. In 1983, a Russian businessman became indebted to organized crime figures for \$50,000 at a 30 percent interest rate. For the next 8 years, he had to borrow another \$70,000 to make payments. During that time, he repaid \$480,000. In 1991, he and his family were being threatened by organized crime figure for repayment, and he finally came to law enforcement for help. The suspects were arrested, and we had two convictions in that case.

Nineteen ninety-one was also the year that the Smushkevich brothers were arrested on the basis of a task force investigation involving Federal, State and local agencies. The medical fraud included false billing through mobile medical laboratories and doctors' offices. This was the largest medical care fraud case in U.S. history. Fraudulent billings were in excess of \$1 billion.

In 1992, a few Russian visitors to Los Angeles who had been made indentured servants in a scheme to commit fraud with checks and credit cards wished to return home to Russia. The Russians running the scheme would not allow the visitors to leave and held their passports and visas. An argument ensued, and the visitors murdered the two Russian captors. Los Angeles County sheriffs responded to a call from the neighbors regarding a car in the driveway with the motor running for a long period of time and discovered the suspects attempting to eliminate identification on the bodies by removing the fingertips and removing the bullets from the bodies.

In 1994, a group of Armenians who had been extorting, kidnapping and in general terrorizing the Armenian community for the past 13 years were arrested and convicted.

In 1995, a task force of the Los Angeles Office FBI, IRS, Department of Defense, California Department of Justice, the Los Angeles Police Department and the Long Beach Police Department investigating fuel tax fraud that also involved using fraudulent IRS forms, rigging fuel pumps and blending additives to extend fuel concluded by arresting 25 individuals on various RICO violations. The ringleader, Joe Mikhailian, was identified as the "godfather" of the Armenian mafia in Los Angeles.

Current joint investigations are underway with the Los Angeles Police Department, the Glendale Police Department, and the FBI on a number of murders involving the garment industry. There have been 5 murders, 5 attempted murders, shootings, bombings and extortions in the Los Angeles-Glendale communities that are believed to be related to organized crime in the garment industry. Of all of these crimes, there has only been one conviction for murder.

There are numerous investigations by several agencies into ongoing medical frauds, many of which have spread into other States as pressure is applied in the Southern California area. These frauds seem to be based on staged or manufactured auto accidents and involve not only doctors, but attorneys as well.

Law enforcement is trying to combat the rapidly growing problem of Russian organized crime by working together on cases and forming task forces needed to solve the problem. In 1991, the Los Angeles Police Department, the Los Angeles FBI, and the Los Angeles County Sheriff's Office organized a regional meeting of law enforcement professionals known as the Soviet Organized Crime Intelligence Team, or "SOCIT." The California Department of Justice has been taking information from all sources and building a database on Russian organized crime to benefit law enforcement in tracking the problem. It also has been instrumental in organizing two more information-sharing groups in Northern California.

Some of the problems for law enforcement in dealing with the new criminals include a lack of trust in the community of law enforcement based on their experiences in the old country. Immigrants are subjected to threats from mafia members and feel that they have nowhere to turn. Law enforcement must make inroads into the community to build trust. They must also interact with other agencies on the local, State, national and international levels to counteract the highly mobile, violent Russian criminals who today deal with any other crime group in the world to continue their criminal enterprise.

Prosecutors need to be educated on the subject and make every effort to prosecute every case, no matter how trivial it may seem. There also needs to be an international database open to all law enforcement. Today, with the rapid growth of this problem, it is imperative that agencies and departments find resources for training, manpower and equipment to effectively combat the problem.

This concludes my statement. I will be happy to answer questions.

Senator ROTH. Thank you, Mr. Pollard.

We will now hear from the undercover police officer. Please proceed.

TESTIMONY OF AN ANONYMOUS UNDERCOVER POLICE OFFICER¹ FROM ANOTHER CITY

ANONYMOUS WITNESS. Senators, I welcome the opportunity to appear before your distinguished committee.

I was born and raised in Russia. I emigrated from Russia to the United States in the 1970's. I have been a law enforcement officer for more than 15 years. I have served in different capacities—uniformed patrol, homicide detective and narcotics detective.

During the past 2 years, I have been involved in numerous Russian organized crime investigations.

Due to the fact that I am involved in a number of extremely sensitive investigations, I am testifying anonymously in order not to jeopardize these cases or the safety of others.

As I said earlier, I grew up on the former Soviet Union. I was raised under the Communist system, and I believe that I know the thinking of the people who were brought up in that system.

I am very active in the Russian emigre community in the city in which I live. I attend most of the gatherings of the emigres and continue to be very much in touch with the Russian emigres and their culture. I receive and read most of the literature that is published in the Russian language in both the former Soviet Union as well as here in the United States.

Now I would like to touch on the subject of the difference between the cultures in the Republics of the former Soviet Union and the United States.

During the Communist regime, for many people in the former USSR, the moral values accepted in a free society were "destroyed," maybe with a few exceptions. Russian people grew up with the understanding that stealing something from their place of employment is not a crime—maybe because one was not stealing from a friend but rather from a system.

They also grew up with the understanding that the rules were made to be bent or bypassed. That mentality, philosophy and upbringing explains why some of the Russian emigres, many of whom were educated, family people, got involved in white collar-type criminal activity here in the United States.

Up until perestroika, the method by which success was judged in the USSR was the level of a person's education. Doctors, engineers, teachers and scientists were all accorded a somewhat higher status in society. Wealth was not a factor as a worker in a factory was making as much money as a doctor did. And the people who did make money in the underground economy or black market operations were concealing their wealth.

After perestroika, this situation was reversed, and the wealthy people rose to the top of society. With perestroika, organized crime flourished in Russia.

Now I would like to explain how these criminal groups emerged. There were a number of young people who were energetic but impatient or unable to build up their own businesses over a period of time. These people started to form criminal groups based on their affiliations with neighborhoods, cities, or ethnicity. The groups were led by either professional criminals or people with

¹The prepared statement of an Anonymous Undercover Police Officer appears on page 197.

leadership abilities and similar interests. These groups started to prey on the new Russian business society. They continued to grow, and some of the criminal organizations are now several thousand members strong. They would extort money, kidnap people for ransom, and organized collection agencies which used very unorthodox methods.

Another new industry began to emerge, that of "murder for hire." Business people would use these hired killers to wipe out their competition and thereby give a lesson to others: Do not fool around with my company or the area that I am operating in.

Information has been developed that many of these murders were committed in Russia by people with extensive military backgrounds. These actions forced the business people to each begin looking for "protection." And a new and very profitable business, called "krisha," meaning "roof" in English, came into being.

Very few businesses in Russia could survive without this protection. Up to 50 percent of their income was diverted by the legitimate businesses to criminal organizations in return for this protection.

With the new ability to travel freely, we see Russian criminal organizations establishing their roots, their ties, here in the United States of America.

Another important point is that during the Communist regime, there was in effect a system where a privileged class of the Communist government officials was developed. There was almost a closed society of the Communist bureaucracy, and it was nearly impossible to become a part of it unless one was well-connected.

However, with the dismantling of the Soviet Union, these people remained in office, but no longer under the Communist system which guaranteed them a better life. They began to see that money is the criterion on which people were judged; yet they had the power to issue licenses, permits, valuable government contracts, set customs duties on goods imported into the former Soviet Union, or set standards for the export of Russia's valuable commodities—for example, its natural resources.

Many of these government officials began to take advantage of their positions due to this perception. They or members of their families became "partners" in business enterprises or in effect "sold" their power and authority.

Information developed shows that many Russian government officials, working on a modest salary, amassed vast sums in this fashion. These same corrupt officials put the profits from this activity in bank accounts all over the world and purchase real estate or other property in various countries, including the United States of America.

In addition, many of the former intelligence and law enforcement agents and leaders perceived that they were "on the bottom," so to speak, of the new and emerging wealthy Russian society. Their services and knowledge became a valuable commodity to the emerging criminal groups.

In speaking with a number of sources of information over the past couple of years, I have learned that individuals and businesses affiliated with the former Soviet intelligence organizations are being used by the Russian organized crime groups all over the

world, including in the United States. While I cannot go into the specifics of this, I can say that the information developed shows that the former intelligence officers are working in league with Russian organized crime and making huge profits in the process.

Among the strongest Russian criminal organizations which are operating today are the following groups. The Izmailovskaya organization, the Solntsevskaya organization, the Podolskaya organization, Balashikhin, Baumanskaya, Chechen criminal organizations, Dagestani, and the list goes on. This is just to name a few.

We have been able to link several murders which have occurred in the United States to Russian organized crime groups. Information developed shows us that Russian criminals were open to cooperation with other criminal groups, for instance, Italian American criminal groups.

We also developed information about increasing cooperation between Russian organized crime and Colombian drug cartels. The Russian organized crime groups are believed to be heavily involved in the laundering of the profits of these Colombian drug cartels. They have also established a continuous flow of cocaine from Colombia to Eastern Europe and Russia. It has even been recently reported in newspapers that drug dealers in Colombia are using former Soviet military transport aircraft to move quantities of cocaine.

To describe a typical activity of Russian organized crime in the United States, I can bring the following example. A hardworking Russian businessman operating in a heavily-populated Russian area of a major city is visited by several males. They tell the businessman that, either for a certain percentage of his business or regular payments, they will "protect" his business. If the businessman replies that he does not feel that he needs that protection, in the near future, strange things will happen to his family or himself. Robberies may take place at his establishment. Acts of vandalism will occur. Threatening phone calls will be received, and/or violent acts against him or members of his family will take place.

The same people will visit the businessman again and, now convinced that he does need protection, the businessman will start paying.

Senators I have been asked by your staff whether I have any advice for the Subcommittee on how to combat Russian organized crime. I would like to make a few suggestions that would come not only from me, but from law enforcement personnel with whom I am working on Federal, State and local levels.

Formal task forces should be established in major metropolitan areas, consisting of Federal, State and local officers. What these task forces could do is actively gather information about Russian organized crime activity in their cities and conduct investigations against these subjects. The task forces should establish liaison contacts with law enforcement agencies throughout the world, since Russian organized crime groups operate on a global level.

One of the most glaring gaps in the fight against Russian organized crime is the lack of an extradition treaty between the United States of America and the former Soviet Republics. This has enabled many Russian criminals associated with organized crime and sought as fugitives by Russian authorities to seek refuge in the

United States. By the same token, Russian criminals who have been committing crimes in the United States have subsequently left for Russia and found safe haven there.

What could be accomplished by addressing these matters, however, is a slowing down but not a complete halt to the growing problem of Russian organized crime in the United States of America.

I thank you again for the opportunity to appear before your distinguished Subcommittee.

Senator ROTH. Thank you.

Senator Nunn?

OPENING STATEMENT OF SENATOR NUNN

Senator NUNN. Mr. Chairman, I had to attend a funeral this morning and regret that I was unable to be here. I appreciate your hard work and the work of the staff and all the witnesses who have testified. I do not want to interrupt the flow, so I will just put my opening statement in the record if that could be done, and I will follow your questions.

[The prepared statement of Senator Nunn follows:]

PREPARED OPENING STATEMENT OF SENATOR NUNN

Thirty-three years ago this September, Joseph Valachi testified before this Subcommittee. His unprecedented testimony gave Congress and the American people their first insider's view of a criminal organization called the "La Cosa Nostra, the LCN, or as Valachi called it—"Our Thing." This morning, the Permanent Subcommittee on Investigations continues in that same tradition by holding the second in a series of Senate hearings exploring the activities of a new crime group operating within our country that comes from the territories of the former Soviet Union—a crime group that many have compared to the La Cosa Nostra in its proclivity toward violence and mayhem.

As we will hear from our distinguished witnesses this morning, crime, and particularly organized crime, has become one of the most dangerous forces to arise from the collapse of the Soviet system. It has cast a shadow over efforts to achieve market reform and democratization in Russia and the other independent republics, and it may ultimately pose a threat to peace not only in that region of the world, but in others as well. As such, organized crime in the former Soviet Union is fast becoming not only a law enforcement nightmare, but a potential national security nightmare as well.

Hearings last month concerning a year-long probe that I directed into the proliferation of weapons of mass destruction, underscores these concerns. Numerous witnesses testified about the frightening possibility of organized crime in Russia, or elsewhere, obtaining nuclear weapons or fissile material. Although, to date, none of the experts contacted by the Minority staff had evidence of direct organized crime involvement in such activity, all expressed deepening concern that such an event was becoming more plausible.

Today's hearing is obviously not the Subcommittee's first exposure to the topic of organized crime in the former Soviet Union. As one of my staff reminded me recently, 13 years ago, one of his first interviews for the Subcommittee was with the Philadelphia police and dealt with "Soviet" organized crime members infiltrating the jewelry business in that area. However, it was not until the demise of the Soviet regime that this phenomena took on greater dimensions.

In May of 1994, under my direction as Chairman, the Subcommittee explored the activities of Russian organized crime both here and in Europe. At that time, the Subcommittee in an unprecedented move, brought together a distinguished panel of international law enforcement experts consisting of Louis Freeh, Director of the Federal Bureau of Investigations, Hans-Ludwig Zachert, President of Germany's Bundeskriminalamt, and General Mikhail Yegorov, First Deputy Minister of Russia's Ministry of Internal Affairs and the Head of Russia's Organized Crime Control Department. That hearing represented the first time that such high-ranking law enforcement officials from these countries had testified together before the U.S. Congress. Their testimony was also unique in that it described a problem faced by all

three countries—the phenomenal growth of organized criminal activity in the territories of the former Soviet Union.

Our 1994 hearings showed that unlike the first half of this century when the La Cosa Nostra migrated to this country and successfully infiltrated our society without any major law enforcement reaction, today law enforcement officials on both continents are concerned and doing something about this problem. I am encouraged by this response from American law enforcement in general, and more specifically, the FBI, Customs Service, Internal Revenue Service, and other State and local law enforcement agencies have shown in confronting Russian organized crime before it took root. I particularly want to praise the leadership of FBI Director Freeh who has called for greater attention to this important phenomena. Director Freeh along with the others have obviously learned from the mistake we previously made in ignoring the La Cosa Nostra until they were too well entrenched in our society.

Today's hearing builds upon what we learned in 1994. We will focus our attention almost exclusively upon Russian organized crime activities within our own country's borders. Our purpose this morning is to determine the true nature of Russian organized crime in America and the significance of this criminal phenomena. More specifically:

- How many members does it have, how is it organized, who are its leaders?
- How big is the Russian organized crime problem in comparison to other crime problems such as gangs in Los Angeles, drug trafficking in Miami, the mafia in New York?
- How extensive are its ties to other organized crime groups both here and abroad?
- How wealthy is it? What are its ties to financial institutions both here and abroad?
- What are its ties to criminal, government and intelligence elements of the former Soviet Union?

Hopefully, we will be able to answer many, if not all, of these questions. At the minimum, I expect today's hearings will help us all to sort out what is credible and what is not; what is the real and what is fictional; and, what is the threat from what is merely sensationalism. This latter point is clearly important in light of the comments of the learned Chairman concerning even the term "Russian organized crime".

Clearly, I join with Senator Roth in decrying those who would tarnish every Russian or every emigre from the former Soviet Union with that term. It has become merely a term of convenience within the press and public as shorthand for criminals coming from any one of the many new states created out of the former Soviet Union or even from the new republics of Eastern Europe. Moreover, it is equally unfair to paint with a broad brush the vast majority of former Soviet citizens currently residing in America who are law-abiding, hard-working and extremely loyal members of our society. In fact, as Senator Roth has already noted, these new immigrants to our country are more likely than any others to be the victims of this criminal activity. As with the history of all other ethnic-related organized crime groups in our country, the criminals usually prey upon their own ethnic community, hoping to profit from their fellow countrymen's ignorance and/or mistrust of their new country's laws and government.

It is important that we keep this in mind as we listen to today's witnesses. It is essential that we honestly assess the threat from Russian organized crime so that we correctly balance our government's response. We must be judicious in our response so that we do not trample upon long-cherished democratic principles.

In closing, I wish to thank the efforts of Senator Roth and his staff in preparing today's hearings. I commend their efforts and once again congratulate Senator Roth on his leadership in this area of utmost concern to our country.

Senator ROTH. Well, thank you, Senator Nunn. I want to say once again that we appreciate your cooperation and that of your staff in this investigation.

Detective Mackey, you stated that Brighton Beach is a hub for Russian-born criminals. Why is this true?

Mr. MACKEY. That is correct, Chairman Roth. Brighton Beach has traditionally been the first stop for new former Soviet Union emigres, like the Chinatowns or Little Italys or the like in New York or other big cities. It is a small, oceanfront, tightly-knit com-

munity where networking, connections and ethnic alliance make Brighton Beach the ideal place to ply their trade.

The prevailing attitude of not wanting to be labelled a "stukatch," or informant, an attitude which is a residue of life in the former Soviet Union, makes Brighton Beach convenient for criminals. An example of this is indicated by pen registers or wire-taps of investigations outside of New York jurisdiction which lead back to Brighton Beach.

No matter what agency or its jurisdiction, the tentacles of Brighton Beach are present.

Senator ROTH. Has Brighton Beach changed notably since the breakup of the Soviet Union and the resulting influx of Russian immigrants?

Mr. MACKEY. Yes, Mr. Chairman. Changes in Brighton Beach that we have been observing include younger criminals in Brighton Beach with a propensity toward intimidation, with intelligence indicating that they have been sent here to specifically engage in criminal activity.

Additionally, we have seen more violent acts than in the past, as indicated by a recent double homicide in which both victims were totally dismembered.

Intelligence indicates that many of these criminals are transient, with the ability to move about freely.

Senator ROTH. You indicated that they were sent here; do you mean they may continue to have ties with criminal elements back in Russia?

Mr. MACKEY. That is correct, Chairman Roth. We have had intelligence briefings that indicate that these criminals plying their trade in Brighton Beach still travel back and forth freely between Brooklyn and the former Soviet Union.

Senator ROTH. Detective Cefarello, Anthony Casso testified earlier today about the killing of Vladimir Resnikov outside of the Odessa Restaurant in Brighton Beach. Are you familiar with this murder, and if so, has anybody been charged with this crime?

Mr. CEFARELLO. Yes, Chairman Roth, I am familiar with the murder, and as of this time, no one has been charged in that murder.

Senator ROTH. Mr. Casso also testified that Resnikov was killed by Joey Testa of the Lucchese organized crime family. Is this a plausible explanation of the murder?

Mr. CEFARELLO. Yes, it is plausible. The murder investigation show witness statements and forensic and some individual statements that make that plausible, yes.

Senator ROTH. You testified that there have been more than 40 murders—

Mr. CEFARELLO. Forty-two, yes.

Senator ROTH [continuing]. Forty-two—in New York City linked to Russian organized crime. What is the explanation as to why there have been so many murders? Have you found any recurring patterns or methods used by the Russians to commit these murders?

Mr. CEFARELLO. The prevalent weapon of choice used by Russians is usually a semiautomatic handgun, the high-powered semiautomatic handguns, although "streetsweeper" shotguns and auto-

matic machine pistols have been used. Several victims have been brutally stabbed, as Detective Mackey stated, and two were totally dismembered.

As far as why they occur, I would say that probably as in any other organized crime organization in the past, it would probably have a lot to do with greed and someone trying to take over your territory or someone trying to get some of that tax money that you heard about earlier from the gas scams. With millions and millions of dollars passing hands, someone is going to get killed in between.

Senator ROTH. Do you think this is still continuing?

Mr. CEFARELLO. From what I have heard today and from what I have heard before, yes.

Senator ROTH. Detective Pollard, it is hard to see you because of the screen. You testified about "shadow people" who are hired by Russian organized criminal groups to travel to the United States to commit murder and other violent crimes. Can you provide us with examples of crimes in the Los Angeles area that you suspect were committed by these "shadow people"?

Mr. POLLARD. Yes, Senator. Probably the best example would be the Carole Little murders, which is the garment industry case that I referred to. In that case, there have been 5 murders, 5 attempted murders, and numerous other violent crimes. It is well-believed that most of these, or a good percentage of them at least, have been done by these "shadow people" or visitors coming in. It leaves detectives with dead-ends when they are investigating.

Senator ROTH. Did they go back to Russia afterwards—is that what happens?

Mr. POLLARD. Yes. The information we get from the street sources indicates that they will come in on a flight from Moscow to Los Angeles on a Saturday; there is another flight from Los Angeles to Moscow on Wednesday. They will come in on one of those flights, do whatever they have been hired to do, and be out on the next flight.

Senator ROTH. In your statement, Detective Pollard, you discuss the problems of L-1 visa fraud enabling Russian criminals to enter the United States. How serious a problem is this, and what is being done, if anything, to help solve it?

Mr. POLLARD. That problem is a serious problem right now. There is an ongoing investigation by the State Department that we are assisting with. The scenario on it is that a Russian crime figure will go to the Moscow Embassy and obtain a B-1 or B-2 visitor visa, will come to the United States, set up a storefront or a mail-drop-type business, write himself a letter of invitation, saying that he is needed for some work in that business, return to Moscow with the letter, take it back to the Embassy, trade in his visitor visa for a work visa and come back; he will then write more letters to more people in his organization in Russia and have them come here. They will use that storefront business to launder money and to cover whatever their criminal enterprise is.

Like I said, the State Department has an ongoing investigation nationwide on that; local and State agencies are assisting with feeding information and helping as they can.

Senator ROTH. I was struck by a line in your statement where a Russian source said, "The only thing I fear is deportation, and

you won't do it." The Subcommittee has investigated the problem of criminal aliens, and the Senate recently adopted an amendment that I cosponsored to simplify and expedite the deportation of criminal agents.

Do you believe that deportation is an effective weapon?

Mr. POLLARD. Yes, sir. I think it would be a highly effective weapon if we could use it. The problems that have come up in the past as far as using it, especially with the refugee statuses, have been a real hindrance. With the changes that have been made and should be made in the future, I think it would be a very effective weapon.

Senator ROTH. I would now like to turn to our undercover officer. You discussed several organized crime groups based in the former Soviet Union. Do any of these groups operate in the United States, and what crimes do they engage in?

ANONYMOUS WITNESS. Yes, Senator. We have developed information that the following Russian organized crime groups have established their ties in several major metropolitan areas in the United States. They are the Izmailovskaya organization, the Solntsevskaya organization, the Chechen criminal organization, the Taganskaya criminal organization, and there are others that are still under investigation.

Senator ROTH. Now, as a typical example of Russian organized criminal activity, you described the extortion of a Russian businessman who, after he is threatened and his business vandalized, decides to pay. If he were to ask you, "What should I have done?" how would you have answered him?

ANONYMOUS WITNESS. Senator, that is an extremely difficult question to answer. As a law enforcement officer, I would suggest that the businessman should file a complaint with the appropriate law enforcement agency. However, putting myself in the position of the Russian businessman, and understanding the limitation of law enforcement to protect the individual and his family on a continuing basis, I would suggest that he peacefully resolve this matter by cooperating with those who approached him.

Senator ROTH. So in other words, to put it briefly, as a friend, you would tell him to pay?

ANONYMOUS WITNESS. Right.

Senator ROTH. Let me ask you this question. You have been a police officer, as I understand it, for several years in this country.

ANONYMOUS WITNESS. More than 15.

Senator ROTH. How do you see the activities of the Russian criminal groups changing over that period of years?

ANONYMOUS WITNESS. It is becoming well-organized, well-funded; they are operating with huge amounts of money. They are becoming more and more sophisticated.

Senator ROTH. In other words, they are becoming more structured, better organized—more effective?

ANONYMOUS WITNESS. More effective and integrated into the American business community.

Senator ROTH. Do you see them investing in a major way in legitimate businesses?

ANONYMOUS WITNESS. Yes, Senator.

Senator ROTH. Let me ask all of you officers this question. You are the first line of defense against Russian organized crime. Are you satisfied with the level of cooperation you are receiving from State and Federal agencies?

Mr. Mackey?

Mr. MACKEY. Chairman Roth, as a representative of the New York City Police Department, I can honestly say that although interagency cooperation does exist, there is certainly need for improvement.

We have had homicide investigations stymied because of parallel investigations involving the New York City Police Department and other agencies, where we are interested in solving a homicide, and they have their own agenda, and the forthrightness or the passing on of information did not occur in certain situations, which left us frustrated and unable to get certain goals accomplished.

So we certainly need to address that problem and get some egos out of the way and get some major agency heads to sit down and actually, instead of making promises, to actually put some bite into what they are referring to and get things done, because without this cooperation on the Federal level and the State level and the local level, this is a crime problem that as representatives of local police departments, we cannot take on by ourselves.

Senator ROTH. I suppose it is even accentuated by the fact that not only are they involved at the local level, but you have the international aspects of these criminal elements as well. But I think you make a very valid point and one that gives me real concern.

Mr. MACKEY. Chairman Roth, there were certainly a lot of promises made in this room today, and I certainly hope that a lot of these representatives from these different agencies come through on these promises.

Senator ROTH. Well, we will try to help to make sure they do in fact follow through, because you are exactly right; it is going to take cooperation at all levels of Government.

Mr. MACKEY. Thank you, Mr. Chairman.

Senator ROTH. Mr. Cefarello?

Mr. CEFARELLO. Yes, I agree that some of the investigations have been stymied by Federal and city people not getting along or not sharing information.

However, like I said in my statement, there are meetings held regularly with ourselves and Customs, INS, the State organized crime task force and all of these Federal agencies getting together with us, and we are doing fairly well at sharing information.

I hope that in the case of the Resnikov killing and other killings that Mr. Casso spoke about, maybe we will get a shot at talking to him and finding out about some homicides he is speaking of; maybe he can help us clear them up. Maybe a Federal agency can help in that way.

Senator ROTH. Mr. Pollard?

Mr. POLLARD. Mr. Chairman, at the present time, I enjoy a real good rapport with State and Federal agencies in all aspects through our meetings and our joint ventures as far as putting cases together and even the task force. I think everybody is pretty well aware of the problems and that we have to work together.

In the Los Angeles area, most agencies are working together to try to get a handle on this.

Senator ROTH. Let me finally turn to our anonymous witness. Do you have any comment?

ANONYMOUS WITNESS. Yes, Chairman. I can only speak for the area of the country in which I am currently working. Although we have an informal cooperation between several Federal, State and local law enforcement agencies, I would like to see full-time task forces established in which all of the appropriate agencies will contribute the necessary resources and effort to combat this growing problem.

In my opinion, no one agency can accomplish this task alone.

Senator ROTH. You have a Russian background. Do you have any suggestions as to how to improve cooperation and exchange with the Russian authorities?

ANONYMOUS WITNESS. Yes, Chairman. I would like to see a liaison established between the law enforcement agencies and the Russian communities in major metropolitan areas. I would like to see encouragement from the law enforcement agencies with the Russian communities to join the law enforcement agencies.

Senator ROTH. Thank you.

Senator NUNN?

Senator NUNN. Thank you, Mr. Chairman.

I had it in my opening statement, as I believe you did in yours, Mr. Chairman, but I would like to ask the police officers directly. We talk about Russian organized crime, but it sounds to me as if you are describing a much broader geographical description to include most of the former Soviet Union and even Eastern Europe. Would it be fair to say that, or are you really talking about Russia in a limited geographic sense?

Could I ask our anonymous witness first?

ANONYMOUS WITNESS. Yes, Senator. When I am referring to Russian organized crime, I am referring to the former Soviet Union republics.

Senator NUNN. The whole array, including Ukraine, Kazakhstan, Central Asia—

ANONYMOUS WITNESS. All 15 republics.

Senator NUNN. Are you also including Eastern Europe?

ANONYMOUS WITNESS. Yes, Senator—Poland, former Czechoslovakia.

Senator NUNN. So as you use the word "Russian" here, it is a very broad description of, really, the former Soviet empire, is that right?

ANONYMOUS WITNESS. You are right, Senator. The reason I am referring to "Russian organized crime" is because they all speak Russian, although they come from different republics.

Senator NUNN. So the common denominator is speaking the Russian language.

ANONYMOUS WITNESS. Right.

Senator NUNN. Mr. Mackey?

Mr. MACKEY. I concur, Senator Nunn, with my comrade—correction, my counterpart; I got carried away there—I concur with my counterpart regarding his testimony. As previously indicated, the phrase "Russian organized crime" is a misnomer, but for simplicity,

it makes things a lot easier. But as indicated, we are also encountering Azerbaijanis, Armenians, Georgians, Chechens—a whole gamut of people from the former Soviet Union—in Brighton Beach.

Senator NUNN. Mr. Pollard, I cannot see you, but I think you can hear me.

Mr. POLLARD. Yes, sir.

Senator NUNN. Do you concur in that, or do you have a different view?

Mr. POLLARD. Yes, Senator, we concur as far as most of the Russian-speaking people. In the Los Angeles area, with the large population of Armenians, we do separate them out, and although they work together with the rest of the Russians, they have their own community, and it is large enough that we have a team that works on Armenians, and my partner and myself work on the rest of the Russians.

Senator NUNN. I would like to have an opinion from each of you, including our anonymous witness, as to how you compare the "Russian" or former Soviet Union organized crime problem in your communities with other organized crime, including traditional organized crime, the LCN, the Medellin cartel, the Jamaican posse, the various gangs that we have seen, the Crips, Bloods and so forth in Los Angeles.

As a general question, how do you compare the degree of bad influence, destruction, crime and so forth carried out by the Russian organized criminals compared to these other groups?

Mr. Mackey?

Mr. MACKEY. Senator Nunn, that certainly is a big sphere to address. We know that in New York City, as in other large cities where we had traditional organized crime or La Cosa Nostra in place, that the Federal Government and local governments have certainly been very, very effective in taking down their empires, certainly in the last couple of years.

We do have the cartels in place in New York City involved in narcotics, which are being addressed by different units of the police department, and the Jamaican posses as well.

I am speaking here solely about Russian organized crime. It certainly has the ability and the potential to become a serious threat to New York City if not checked in the near future. It certainly has the ability to move its tentacles out into the surrounding tri-State area as well.

Senator NUNN. Would it compare with the LCN now that the LCN has been knocked down in some particular families and so forth, and with the successes we have had? Which would be more serious now—the "Russian" organized crime problem in the New York area or the LCN?

Mr. MACKEY. I would have to agree with other members of my profession that certainly LCN has the capability and has been involved in more activity. But with the vacuum recently created by the major take-downs of LCN families and people within their organization, Russian organized crime, again as a misnomer, is certainly standing by and ready to fill that vacuum if we are not there to take on this situation.

Senator NUNN. So LCN would still be more potent now, but you think the potential is there for Russian organized crime to step into the vacuum that is being created?

Mr. MACKEY. Yes. I certainly do not feel there is anyone in the room who would state that the LCN or traditional organized crime has been completely decimated by law enforcement. We know that they still exist; however, we have been chipping away strongly over the past couple of years and making great inroads. But again, as I stated, the Russian organized crime—certainly, it is vying for power and it is out there, and we have got to get it in check soon.

Senator NUNN. How about in Los Angeles, Mr. Pollard, the same question—how does this compare relative to other organized criminal activities including LCN, but also including organizations like the Crips and the Bloods that we have had hearings on before here?

Mr. POLLARD. Yes, Senator. First of all, addressing the Crips and Bloods and some of the others, that is a major problem that we probably have more violence from than most of the rest of the groups put together in terms of drive-by shootings and that type of activity.

That is being addressed by several different divisions and groups within my department. In terms of other ethnic groups, there are several around, none of which seem to have the potential at this point that I can see that the Russians do—and I use that term “Russian” including Armenians in this sense.

Senator NUNN. Right.

Mr. POLLARD. The LCN in Los Angeles has never been as strong as the East Coast LCN. In fact, they have terms for themselves that include “Mickey Mouse Mafia” and things like that, that show that—

Senator NUNN. “Mickey Mouse” what?

Mr. POLLARD. They refer to themselves even as the “Mickey Mouse Mafia” on the West Coast, and they do not seem to have the strength of any of the families from the East Coast. East Coast families come out and set up businesses and do not even contact them for approval or to pay tribute.

So the LCN is not that strong of an issue in the Los Angeles area. I personally believe—and it is probably because I am working the Russians—that the Russians have a little more power right now and are going to be a lot more powerful as things progress.

Senator NUNN. Could I ask our undercover police officer the same question? In general, comparing this group that we have called for the purposes of this hearing “Russian organized crime” to other organized criminal activities in the area of your expertise?

ANONYMOUS WITNESS. Senator, I consider myself an expert on Russian organized crime. I am not familiar with the other—or, I was not involved in the other criminal organization investigations. So I would have to accept the opinion of my comrade from New York as well as my colleagues from other cities.

Senator NUNN. You are accepting him as a comrade, right?

ANONYMOUS WITNESS. Yes, Senator.

Senator NUNN. OK. I would like to ask our witnesses from New York and L.A. this question. You have heard the undercover witness here basically say that he would have to advise someone who

was being extorted in this situation to cooperate rather than to go to the police officials. Would that be, in your area, also your view, or do you have a different position?

Mr. CEFARELLO. I believe that at this time, I would probably have to tell somebody the same thing that he is saying. It is probably a lot safer right now to just pay the money.

However, as a law enforcement officer, I do not want to do something like that. What I would suggest is that we find a way to protect this person's family here and in the former Soviet Union.

Senator NUNN. You are saying you need a lot better protection for people who come to the law enforcement officials with those kinds of complaints than we have now.

Mr. CEFARELLO. Right. Right now, we have the witness protection program. That helps for the person who is talking here. What about his wife or his child or his mother and father in Russia, whom we cannot protect at this time and are vulnerable?

Senator NUNN. Do you concur in that, Mr. Mackey?

Mr. MACKEY. I disagree, Senator Nunn, only because I would probably get my head lopped off if I went back and stated anything to the contrary. Any complainant who walks into a New York City police precinct, we certainly have to entertain and accept every complaint that is given to us, and we would certainly advise any complainant coming in who was the victim of an attempted extortion or an extortion that we are there, willing and able to provide the assistance and conduct the investigation to possibly arrest and then probably prosecute these people—although, as stated earlier, it is very, very difficult to get past the arrest stage with these people. A lot of them are very, very happy in the NYPD vernacular to “take the collar,” and then once the “collar” is over, never show up for grand jury proceedings or any further prosecution.

Senator NUNN. Mr. Pollard, could I ask you to answer the same question—extortion and your advice in L.A. to potential or actual victims?

Mr. POLLARD. Yes, Senator. In Los Angeles, I try to get every victim I can who is reporting an extortion to actively go along with our investigation.

The biggest problem we have after that point is with the prosecutors. We are having to educate individual prosecutors as we go with particular cases, and this is a problem because in large cities, the prosecutors have a filing policy that unless it meets a certain level, they are not going to prosecute the case. A lot of our cases fall below that level.

We need to prosecute every case we can, and that does two things. It sends a message to the criminals that our system is not going to allow their activities, but it also sends a message to the Russian-speaking community that we are there, and we can help them. And without getting into that community, we are never going to have them come forward again.

Senator NUNN. Thank you, Mr. Pollard. You are the “anonymous witness” as far as I am concerned, since I cannot see you, but we appreciate you being here.

Mr. Cefarello, Mr. Mackey, and our undercover police officer, we thank all of you for being here, and Senator Roth, to you and your staff, thank you for having the focus on this. I think it is a very

important subject, and I congratulate you for the hearing and the focus.

Senator ROTH. Thank you, Senator Nunn.

I want to thank each of you gentlemen for being here. I think your testimony has been most helpful.

For the final time, I will ask that the Capitol Police secure the hearing room, ensure that all spectators remain seated, and that no one be allowed to enter or leave the hearing room during this witness' exit.

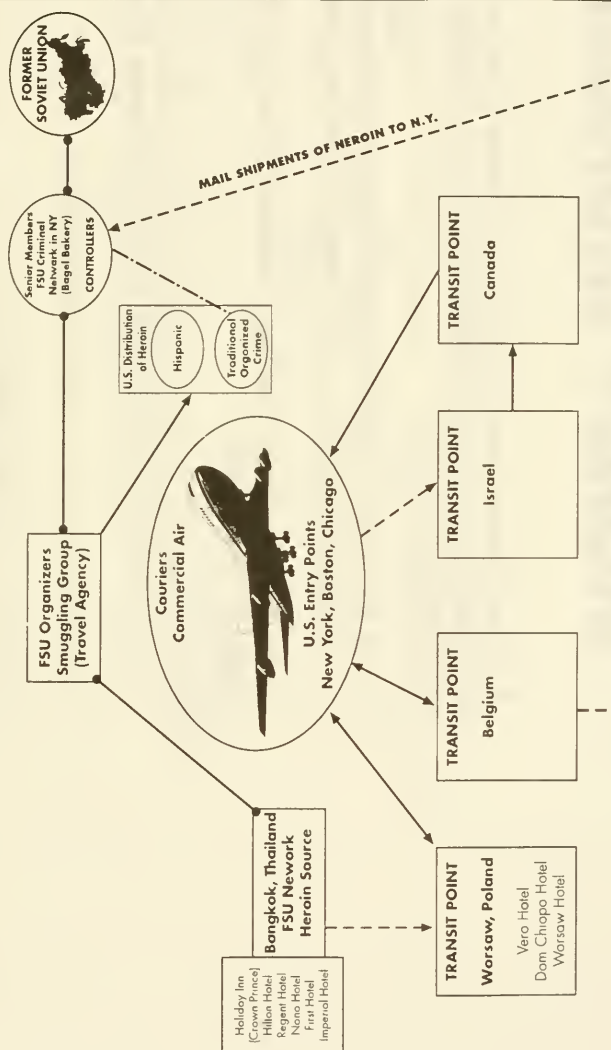
Prior to the exit of this witness, I direct that all cameras be turned to face either to the rear or to the window side of the hearing room. I understand the cameras have all been turned, and I would ask that the witness now leave the hearing room. Again, I want to thank each of you. We do not want any of your heads lopped off.

The Subcommittee is in recess.

[Whereupon, at 1:50 p.m., the Subcommittee was adjourned.]

APPENDIX

Heroin Smuggling Organizations in New York: Associated with FSU Criminal Network in Northeast U.S.

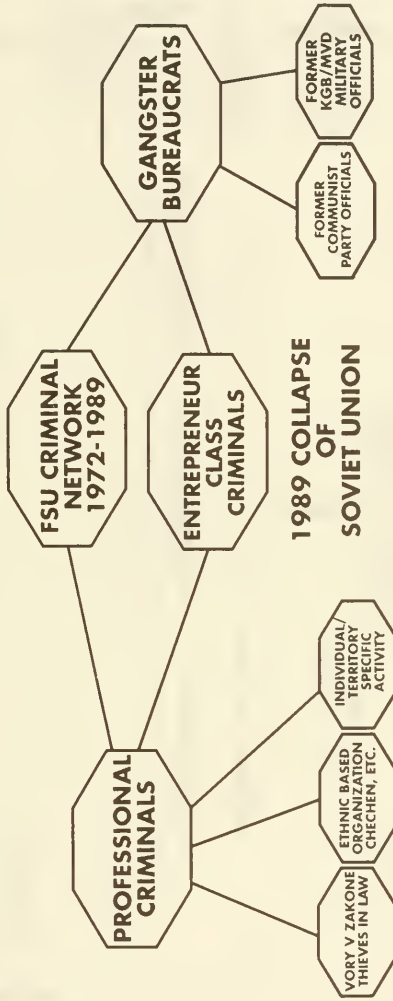


Page 1 of 1
Heroin Smuggling

MONEY LAUNDERING

1. Visa fraud and front companies play a major role in Russian/Eurasian organized crime money laundering operations
2. In Russia in 1994 organized crime had an impact on or controlled 80% of the legitimate businesses
3. In Russia 550 banks owned or under the control of organized crime
4. Capital flight from fraud, theft and other organized crime activities through various phony joint ventures
5. Overvaluation of merchandise
6. Phony consultant fees

RUSSIAN/EURASIAN ORGANIZED CRIME PRESENT DAY CHALLENGE



Source: *International Symposium*
on Organized Crime

Table 1

ATTACHMENT III

U.S. Customs Assistance to Former Soviet Union
and
Central and Eastern Europe

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ¹	Participant's # and Level	Status	Subject-Objectives
"	1996	5	Seminar and Hands-on Workshop	35 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing
"	1996	5	Seminar and Hands-on Workshop	35 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing
Ukraine	1996	5	Seminar and Hands-on Workshop	40 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing

1 e.g., technical assistance, seminar, course, train-the trainers, equipment

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 5

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION
&
CENTRAL AND EASTERN EUROPE

Page 1

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽²⁾	Subject-Objective
Kazakhstan	1995	10	On-Site Assessment	N/A	Completed 1/95	Export Control Enforcement Assessment of Kazakhstan Customs
Russia	1995	7	Seminar	12 Trainers	Completed 1/95	Train-The-Trainer Workshop in Moscow
Russia	1995	10	Observation	15 Executives	Completed 2/95	Visits and Briefings at U.S. Customs Locations
Russia	1995	5	Observation	4 Training Managers	Completed 2/95	Overview of U.S. Training Programs, Visits to U.S. Customs Headquarters and Training Academy
Russia	1995	5	Observation	4 Data Processing Managers	Completed 3/95	Overview of U.S. Customs Automation Activities; Visits to Headquarters and Data Center
Latvia	1995	5	Seminar	24 Field Supervisors	Completed 3/95	Non-Proliferation Border Control
Lithuania	1995	5	Seminar	24 Field Supervisors	Completed 4/95	Non-Proliferation Border Control

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION
&
CENTRAL AND EASTERN EUROPE

Page 2

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽²⁾	Subject-Objective
Estonia	1995	5	Seminar	24 Field Supervisors	Completed 4/95	Non-Proliferation Border Control
Poland	1995	5	Technical Assistance	N/A	Completed 5/95	Create a Video Training Program Based on Polish Customs Railcar Search
Poland	1995	7	Seminar	12 Trainers	Completed 5/95	Train-The-Trainer Workshop
Ukraine	1995	14	Seminar	24 Field Officers	Completed 6/95	Border Enforcement (Narcotics)
Turkmenistan	1995	14	Seminar	24 Field Officers Managers	Completed 6/95	Border Enforcement (Narcotics)
Russia	1995	12	Seminar	12 Executives	Completed 7/95	Inter-Agency Export Control Forum, Including Observation Visit to a U.S. Customs Port
Kazakhstan And Kyrgyzstan	1995	14	Observation	4 Executives	Completed 7/95	Orientation to U.S. Customs Operation, Including Headquarters Briefings and Field Visits

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION & CENTRAL AND EASTERN EUROPE

Page 1

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Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽¹⁾	Subject-Objective
Romania	1995	5	Discussions & Briefings	5 Executives	Completed 7/95	Export Control Consultations in Washington
Ukraine	1995	7	Observation	4 Senior Managers	Completed 7/95	Visit to U.S. Customs Land Border Ports, Overview of Operations
Ukraine	1995	7	Observation	4 Senior Managers	Completed 7/95 8/95	Visit to U.S. Customs Seaports, Overview of Operations
Tajikistan Kyrgyzstan Kazakhstan Uzbekistan Turkmenistan	1995	8	Seminar	12 Trainers	Completed 8/95	Train-The-Trainer Workshop in Almaty
Kazakhstan	1995	4	On-Site Assessment	N/A	Completed 8/95	Assessment of Kazakhstan Customs Automation Efforts for Export Control Purposes
Bulgaria	1995	5	Discussions & Briefings	5 Executives	Completed 8/95	Export Control Consultations in Washington
Kazakhstan	1995	5	Technical	N/A	Completed 9/95	Consultations to Aqtan on the Organization of a Marine Patrol Program

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION & CENTRAL AND EASTERN EUROPE

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽¹⁾	Subject-Objective
Russia	1995	7	Seminar	12 Trainers	Completed 9/95	Train-The-Trainer Workshop in St Petersburg
Poland	1995	14	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
Ukraine	1995	14	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
FYR Macedonia	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control
Albania	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-proliferation Border Control
Bulgaria	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control
Romania	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control

(1) e.g. technical assistance, seminar, course, train-the-trainers,

(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION & CENTRAL AND EASTERN EUROPE

Page 5

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽²⁾	Subject-Objective
Uzbekistan	1995	15	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
Ukraine	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control
Romania	1995	5	Technical Assistance	N/A	Completed 9/95	Export control Licensing and Enforcement
FSU & CEEC Countries	1995	5	Seminar	Various	Completed 9/95	Nuclear Smuggling Law Enforcement (Garmisch, Germany Venue)
Bulgaria	1995	5	Technical Assistance	N/A	Completed 9/95	Export Control Licensing, and Enforcement
Russia	1995	5	Seminar	12 Executives	Completed 9/95	Inter-Agency Export Control Legal and Regulatory Forum in Washington
Belarus	1995	5	Seminar	12 Executives	Completed 9/95	Inter-Agency Export Control Legal and Regulatory Forum in Washington

- 1) e.g. technical assistance, seminar, course, train-the-trainers, equipment
- 2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION
&
CENTRAL AND EASTERN EUROPE

Page 6

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action ⁽¹⁾	Participants # and Level	Status ⁽¹⁾	Subject-Objective
Kazakhstan	1995	14	Equipment	N/A	Completed 9/95	Delivery of New U.S. Government-Provided Laboratory Equipment
Belarus	1995	14	Equipment, Technical Assistance	N/A	Completed 9/95	Installation and Implementation of New Belarus Customs Automated Systems
Belarus	1995	14	Observation	1 Executive	Completed 9/95	Visits and Briefings at U.S. Customs Locations
Ukraine	1995	10	Observation	2 Executives	Completed 11/95	Visits and Briefings at U.S. Customs Locations
Czech Republic	1996	5	Seminar	24 Field Officers	Planned 12/95	Non-Proliferation Border Control
Slovakia	1995	5	Seminar	24 Field Officers	Planned 12/95	Non-Proliferation Border Control
Czech Republic	1996	5	Field Training	24 Field Officers	Completed and Planned 2/96 & 4/96	Customs Enforcement Team

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) e.g. planned, ongoing, completed

STATES WITH SIGNIFICANT ETHNIC RUSSIAN/EURASIAN POPULATION



NEW YORK	447,752
CALIFORNIA	232,296
FLORIDA	229,449
NEW JERSEY	215,841
PENNSYLVANIA	144,050
ILLINOIS	137,086
MASSACHUSETTS	95,964
MARYLAND	81,616
OHIO	79,884
CONNECTICUT	
U S TOTAL	2,952,987

Permanent Subcommittee
on Investigations

EXHIBIT # 6

FIELD OFFICES WITH ACTIVE INVESTIGATIONS ON EURASIAN ORGANIZED CRIME GROUPS



Senate Permanent Subcommittee
on Investigations
EXHIBIT 7

EURASIAN ORGANIZED CRIME GROUPS OPERATING IN THE UNITED STATES

SOLNTSEVSKAYA ORGANIZATION

- Sergfei Mikhailov
- Viktor Averin

LUDWIG FAINBERG ORGANIZATION

- Ludwig Fainberg

MONYA ELSON ORGANIZATION

- Monya Elson

IECHEN ORGANIZATION

- Ruslan Labazanov

LYUBERETSKAYA ORGANIZATION

- Vadim Voronin

DAGESTANTSY ORGANIZATION

- Unidentified

MAZUTKINSKAYA ORGANIZATION

- Alexei Petrov

BAKLANOV ORGANIZATION

- Boris Lungin
- Lev Andelman

IVANKOV ORGANIZATION

- Vyacheslav Ivankov

MOGILEVICH ORGANIZATION

- Semion Mogielvich

KIKALICHVILI ORGANIZATION

- Anzor Kikalichvili
- Iosif Kobzon

FANCHINI ORGANIZATION

- Riccardo Fanchini

KAZANSKAYA ORGANIZATION

- Unidentified

BRANDWAIN ORGANIZATION

- Rachmiel Brandwain

BORIS SORKIN ORGANIZATION

- ✦ - Boris Sorkin

RUDYAK ORGANIZATION

- Mikhail Rudyak

Senate Permanent Subcommittee
on Investigations

EXHIBIT # 8

EURASIAN ORGANIZED CRIME GROUPS OPERATING IN THE UNITED STATES

BRUK ORGANIZATION

- Mikhail Bruk

IBRAGIMOV ORGANIZATION

- Nikolay Ibragimov

ITAEV ORGANIZATION

- Meir Itaev

SERGEY EFROS ORGANIZATION

- Sergey Efros

SOGOMONYAN ORGANIZATION

- George Sogomonyan

SOGOMONIAN ORGANIZATION

- Levon Sogomonian

ARAKELIAN ORGANIZATION

- Vrej Arakelian

BLIKIAN ORGANIZATION

- Nishan Blikian

VILNIUS BRIGADE

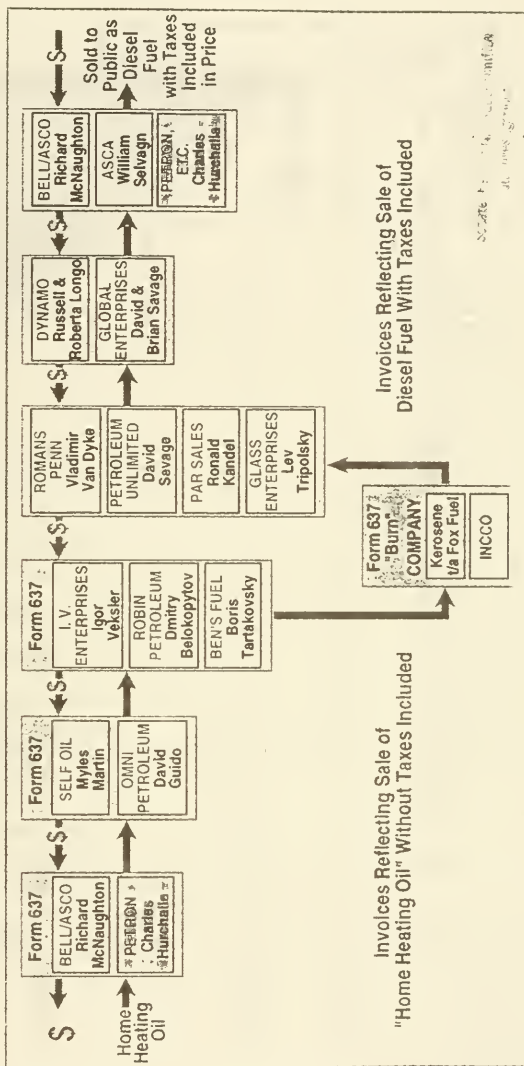
- Georgi Dekadnize

VORKUTA ORGANIZATION

- Viktor Panchuk

STRUCTURE OF DAISY CHAIN PARTICIPANTS

JACOB DOBRER
DAVID SHUSTER
GERALD DITURSI
NADEZHDA SHNAYDERMAN
DMITRY BELOKOPYTOV
VLADIMIR VAN DYKE
EDUARD SIKAR



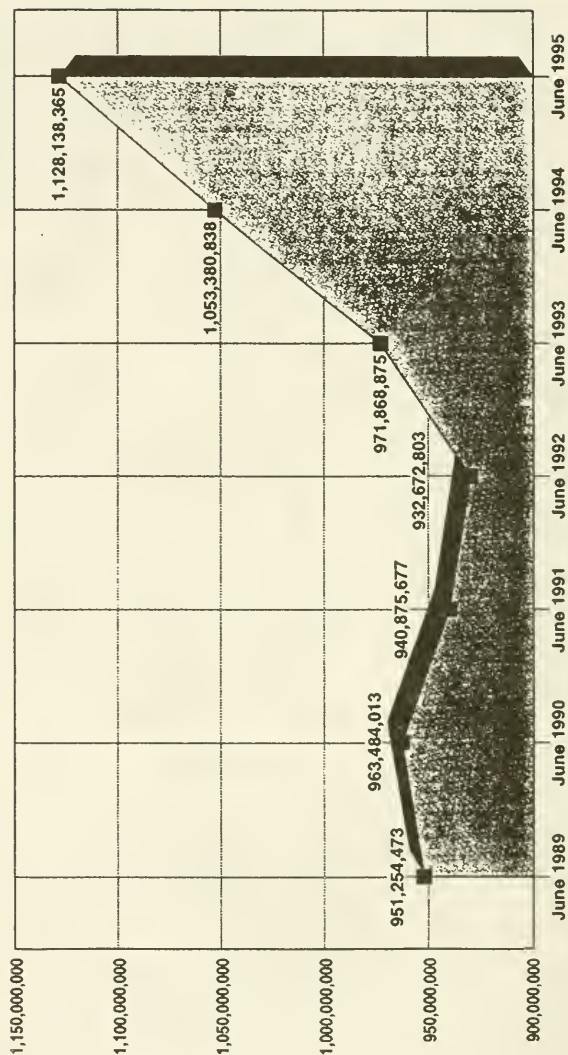
Source: F. B. I. - New York Office
JL 1005-1006

EXHIBIT 10

PA DEPARTMENT OF REVENUE
BUREAU OF MOTOR FUEL TAXES
REPORTED TAXABLE DIESEL GALLONS

Source: from PA Dept. of Revenue
and the IRS

II





2000-2001 Subcommittee
on Investigations
EXHIBIT # 12

INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

MOTOR FUEL TAX FRAUD INDICTMENTS

DATE	LOCATION	PERSONS INDICTED	ESTIMATED TAX LOSS (\$ MILLIONS)
03/29/93	PHILADELPHIA	15	\$14.8
04/06/93	COLORADO NEBRASKA WYOMING	2	4.6
05/05/93	NEWARK	13	60.0
05/27/93	BROOKLYN	18	34.0
06/30/93	BROOKLYN	8	85.0
09/02/93	HOUSTON	4	3.0
01/07/94	ATLANTA	9	1.3
10/27/93 12/03/93 02/24/94	PITTSBURGH	19	21.0
08/08/95	NEWARK	25	140.0
09/12/95	LOS ANGELES	23	N/A
TOTALS		136	\$363.70

CITY OF

Glendale CALIFORNIA

140 North Isabel St., Glendale, CA 91206-4382

(818) 548-

POLICE
DEPARTMENT

May 10, 1996

United States Senate
 Permanent Subcommittee on Investigations
 Senator William V. Roth, Jr., Chairman
 Senator Sam Nunn, Minority Member

Attn: Michael Bopp
 Subcommittee Counsel

Dear Senators:

The City of Glendale, California Police Department regrets that it cannot make available a law enforcement representative to personally testify before the subcommittee as we had originally planned. But we do hope that our voice can still be heard by submitting this document so that it may be introduced into the subcommittee record as to our efforts in attempting to thwart the Armenian and Russian Armenian organized crime problem.

Historically, Glendale has been a homogenous community made up predominantly of caucasian population. The city for years was considered a middle to upper middle class conservative neighborhood. However, approximately twenty-five years ago the demographics of the city began to change and Glendale became a heterogeneous community. The influx of the Armenian population to the Glendale area, specifically Russian Armenian, is attributed to two waves of migration. In the early 1980's, we saw the first wave of migration of the Russian Armenians to the Glendale and adjoining cities. Then, in 1991, after the fall of the "Iron Curtain", the City of Glendale experienced a drastic population increase within the Russian Armenian communities. Currently, the city's population is estimated at 200,000, of which is roughly 25% Armenian. It is estimated that approximately 50% of the city's Armenian population is Russian Armenian.

To meet the demands of the cultural diversity of the city, the police department began an aggressive recruiting effort to balance its work force to meet the demands of the community. At present, the Glendale

Police Department employs 223 sworn personnel, and upwards of 100



PRINTED ON RECYCLED PAPER

civilian employees. Of these employees, we have (4) full time Armenian police officers and (6) civilian Armenian employees. This translates into roughly 3.5% of the work force having an Armenian background. In addition, the Glendale Police Department has (4) reserve police officers of Armenian descent, and upon successful completion of the police academy, we will soon be adding a Russian speaking officer to full time status.

In 1994, the management of the Glendale Police Department realized there was significant Russian Armenian organized crime developing within the city as well as throughout the region of Los Angeles County. As a result, the Glendale Police Department expanded its criminal intelligence unit to also include an organized crime unit. With limited manpower and resources, the department allocated a sergeant and three officers to address the organized crime issues of the Russian Armenian communities not only in Glendale, but throughout the region.

At present, our criminal intelligence and organized crime unit investigates and gathers information on crimes against persons, crimes against property, fraud related crime and narcotic offenses. Of these, our unit along with the assistance of other units of the department, investigate murders, extortions, robberies, felonious assaults, arsons. Financial crimes including, money laundering, check kiting, counterfeit check production, auto insurance/medical insurance fraud, electronic fraud (credit card fraud and cellular phone fraud). Additionally Glendale has always been aggressively involved with enforcing narcotic smuggling and distribution.

The following is a synopsis of three investigations which directly involve Russian Armenian organized crime elements in the Glendale and surrounding areas.

1) Murders with in the garment district:

-A multi-agency cooperative effort has been established to investigate the recent rash of violent murders and attempted murders associated with the garment district, which are primarily Russian-Armenian owned businesses. Intelligence gathering revealed a major clothing line had sub-contracted out to several sweat-shops to reduce production costs in the Los Angeles and Glendale areas. As a result, stiff competition came about as sub-contractors attempted to underbid in order to obtain the production contract. In some instances, there were bribes and "kick backs" to company management in order to leave a contract with a certain sub-contractor. Sub-contractors became disgruntled and the garment district wars began. To date, there have been five murders, five attempted murders, shootings, bombings and extortions committed within the garment district. All of these incidents are believed to be organized crime related since due to clear indications that sub-contractors were tied very closely to organized crime figures and known hit-men. As a result of these crimes, there has been one conviction for murder.

2) Extortions:

- This agency conducted an extortion investigation where an individual, Hagop Kerboyan was extorting money from a Glendale chiropractic doctor. Threats were made to force the doctor to pay a substantial amount of money in lieu of physical

injury. It was later determined the doctor was committing insurance fraud on the State of California for large sums of money. Kerboyen, having knowledge of this extorted the doctor, believing because he was conducting a fraudulent business, would not report the extortion. Ultimately Kerboyen was convicted and the doctor was indicted. Our investigation has also revealed that Kerboyen belongs to a organized crime cell in the Glendale area.

Investigating these types of cases indicates that although up until now, the Russian Armenian criminals were not structured as traditional Italian organized crime, but they are becoming increasingly structured and disciplined. It is evident that there are cells of loosely structured groups which contain anywhere from ten to one hundred individuals. These groups have agreed to divide the Los Angeles region into territories which are controlled by their respective criminal groups. These groups extort "territory taxes" from the businesses within their specific area. If businesses refuse to pay, they usually are threatened often resulting in murder. Their family members are also threatened in order to send a message. In some cases, family members are threatened who live in their former homeland (usually Armenia) if they do not cooperate. Due to the threatened violence, the victims are forced to pay the extortionists, and thus the crimes go unreported. These criminal groups have become increasingly educated in their criminal activities in that they are now targeting victims that are medical professionals and lawyers who themselves are engaged in medical insurance fraud or auto insurance fraud, (staged auto collisions). The extortion groups know that this group of individuals are less likely to report the extortions to law enforcement due to their own involvement in criminal activity and the large financial return. Often times the results of these extortions are shootings, stabbings, and murder.

3) White collar crime and electronic fraud:

-These crimes include check counterfeiting and kiting, money laundering, cellular phone fraud, and credit card fraud. Of particular interest is a case in which a Russian Armenian had been cloning cellular phones for over three years. He had been arrested for a previous cellular phone fraud offense and was on probation when our investigation began. Through our investigations, we learned that the subject of our investigation was cloning the cellular phones of the "Joe Mikaelyan" crime group. This crime group was recently dismantled by a joint task force which was made up of the Federal Bureau of Investigation, the Internal Revenue Service, Long Beach Police Department, Los Angeles Police Department and the California Department of Justice. Joe Mikaelyan, a self-professed Armenian Mafia Godfather, and his crime group were responsible for financial losses that reached multi-million dollar figures as it related to tax evasion, cellular phone cloning and fraud related crimes. Our investigation revealed that Joe Mikaelyan routinely telephoned and received calls from top-level Russian crime figures located on the east coast. The suspect in our cellular phone cloning operation had been under investigation by the cellular phone industry for several years. The cellular phone industry estimates that in North America, more than \$600,000,000 annually are lost in revenue due to cellular phone cloning and related expenses for investigations into their losses. The leading states for cellular phone fraud are New York, Florida, and California. The

cellular phone industry believes the Russian Armenians to not only be the "Gcdfathers" of cellular phone fraud, but also the leaders in cellular phone cloning, and responsible for the vast majority of their losses. The cellular phone industries representatives further explained that no other criminal group has dominated the illegal cellular phone cloning operations the way the Russian Armenian community has. While investigating a cellular phone cloning suspect, we learned that in a one month period he was responsible for a loss in excess of \$140,000 to the cellular phone companies. This translates into an annual loss of over 1.6 million dollars.

Recently, the Glendale Police organized crime unit investigated two Russian Armenian brothers who had developed a process to defraud not only the cellular phone companies, but also long distance telephone carriers such as ATT and MCI. The two suspects had printed business cards advertising 24 hour service for long distance calling to countries around the world. The business cards were printed in Russian and Armenian languages, thereby operating under a comfort zone and screening customers. The two suspects had set up a bank of three pairs of cloned cellular phones, having phones linked to each other. In order to speak to friends and relatives overseas, particularly in Russia and Armenia, the customer phoned the beeper number on the business card. Once the call was completed, the suspect would send a "runner" to the customer's residence to collect the money for the phone call. Although these crimes may seem to be less significant in the realm of more serious and violent crimes, they are an indication as to how complex some investigations can be when dealing with fraudulent crime.

Compared to traditional organized crime, we have learned that the criminals we investigate tend to be more opportunistic than organized. An accurate description of these groups is loosely structured organized cells of criminal groups. However, this does not diminish the organized and violent manner in which they commit their crimes. It is our opinion, that we are witnessing the precursors to the traditional organized crime "family" structures with bosses, captains, lieutenants, and field soldiers. If this does occur, prosecution of top level figures would be difficult.

The following factors make it difficult for law enforcement to attack the Russia/Russian Armenian organized crime problems within the Los Angeles and Glendale regions:

- the lack of Russian or Armenian speaking investigators;
- the language barriers under which these criminals operate, which has become their comfort zone;
- the ability for Russian criminals to operate so well in a black market setting, due their past ability to survive in a communist economy in their homelands;
- their lack of fear or respect for the American Judicial System because of their knowledge of the leniency of the courts due to overcrowding of jails and prisons;
- their propensity towards violence due to their background and upbringing;

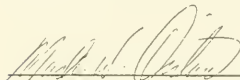
-the ability for Russian or Armenian foreigners to enter the country illegally or with "tourist" visas to commit a specific crime, which often times means an extortion or gangland murder. Soon after they commit their crimes, they flee the country only to return some years later with different identities;

-the sophisticated manner in which criminal activity is carried out within the Russian and Russian Armenian criminal groups. This again can be directly attributable to the fact that they come from a system where criminal activity is common place;

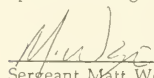
-the educational and training background of these organized crime members, some of whom have been former KGB agents, former police officers, politicians, medical professionals and such back in their countries. As an example, several years ago our department arrested the former police chief of the city of Yerevan, Armenia's capital, for an investigation into extortion, rape, and kidnapping;

-and finally, the loose structuring of these criminal groups makes it difficult for law enforcement to track criminal activity and identify co-conspirators.

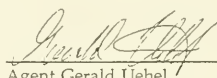
In conclusion, it is our opinion that crime associated with the Russian and Russian Armenian communities will become more violent, sophisticated, and clandestine. Law enforcement today is ill equipped to effectively investigate the issues of Russian organized crime. Although addressing the issues is a positive step, law enforcement is in need of the tools to apply intelligence information to actual investigations and subsequent arrests. This includes additional manpower, equipment, and a multi-agency joint task force comprised of federal, state, and local resources. Task forces are effective means to target Russian organized crime before establishing an irreversible foothold in the United States, as traditional organized crime. For smaller agencies, it is difficult to allocate significant amounts of resources to combat Russian organized crime. However, if the resources of smaller agencies are combined with resources of larger agencies, the results will be far more effective.



Mark W. Distaso
Commander
Special Investigations Bureau



Sergeant Matt Wojnarowski
Supervisor
Intelligence/Organized Crime Unit



Agent Gerald Uebel
Lead Investigator
Intelligence/Organized Crime Unit



DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE

10/15/96 - 10/15/96 - 10/15/96
EXHIBIT # 14

August 19, 1996

Mr. Stephen Levin
Senior Counsel
Senate Committee on Governmental Affairs
Permanent Subcommittee on Investigations
SR-100 Russell Senate Office Building
Washington, DC 20510

Dear Mr. Levin:

Attached please find the information Chairman Roth and Senator Cohen requested at the hearing held on May 15, 1996, concerning the U.S. Customs Service investigations into Russian Organized Crime. If you have questions or need additional information, please do not hesitate to contact me.

Sincerely,

Gloria Bryant
Director
Office of Congressional Affairs

Attachment

Chairman Roth: "First Commissioner Weise, in your testimony, you mentioned that the Department of Defense was defrauded by material that was built on stolen intellectual property and was inadequate. Could you tell me how wide or how broad is this kind of incidence? Do we have any feeling for how widespread a practice this is?"

Answer for the record:

The Electrodyne investigation is the only type of investigation, known to the Customs Service where the U.S. government contracted out to individuals who then subcontracted out to Russian and Ukrainian military contractors to produce specific electronic items for inclusion in our national defenses. Then these subjects manufactured the products to substandard specifications overseas and marked them as made in America prior to presenting the items to the Department of Defense.

Senator Cohen: "...on the first chart you showed, you indicated that there were 6,000 grams of heroin being smuggled in, and you said that 14 people have been convicted. My question is what are the sentences given out to those 14 individuals who were convicted?"

Answer for the record:

attached

The New York heroin case sentencing:

1. 18 months prison then deportation
1. 30 months prison (humanitarian reasons - subject has terminal illness)
1. 121 months prison
60 months supervised release
1. 121 months prison
60 months supervised release
\$5,000 fine
1. 94 months prison
60 months supervised release
1. 12 months prison
60 months supervised release
\$5,000 fine
1. 60 months supervised release
1. 12 months prison
60 months supervised release
400 hours community service
1. 60 months supervised release
\$5,000 fine
1. 10 months prison then deportation
1. deportation to Israel
1. 63 months prison
36 months supervised release
1. 63 months prison
36 months supervised release

other defendant not sentenced yet.

Statement of George J. Weise, Commissioner,
U.S. Customs Service
before the Senate Committee on Governmental Affairs
Permanent Subcommittee on Investigations
May 15, 1996

Good morning, Mr. Chairman and Members of the Committee. It is a distinct pleasure to appear before you today to discuss Russian/Eurasian organized crime in the United States and the cooperative efforts between the U.S. Customs Service and the Former Soviet Union (FSU) to combat this growing problem. I would like to describe Customs' unique role and mission in this area.

One of the most critical challenges customs administrations worldwide, face now, and in the future, is the threat posed by Russian organized crime. The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union resulted in the emergence of a new threat to the national security of the United States and the world community. As a consequence of the collapse of the Soviet State, a vast supermarket of nuclear materials, other stockpiled weapons of mass destruction (WMD), and avenues for international money laundering through various criminal schemes, including drug smuggling, have become available. In response to this ominous threat, and as the geopolitical climate changes, U.S. Customs is refining and intensifying its existing strategies and developing new initiatives to deal with this problem.

Enhanced law enforcement efforts must be taken now to guard against nuclear weapons or weapons-grade material falling into the hands of outlaw nations, organized crime groups, or terrorist bands planning to carry out a catastrophic attack. Further, the United States, through the combined efforts of the law enforcement community, must enhance its efforts to deter Russian/Eurasian organized crime before it becomes well-entrenched in the United States.

Finally, we must use our collective law enforcement skills to ensure that organized crime groups do not thwart the ongoing democratic process in Russia. We cannot sit idly by while organized crime groups expand their operations. Indeed, as I stated at the outset, a breakdown in Russia's civil order will present grave national security concerns for America.

To ensure that we are devoting sufficient resources to address the expansion of operations of international organized crime groups into the United States, we must increase both our foreign liaison efforts and maintain our investigative emphasis on international criminal organizations. Second, we must continue to provide training programs which are responsive to the legitimate needs of foreign law enforcement agencies, thereby

enhancing their capabilities to meet the threats of Russian/Eurasian organized crime and the sale and diversion of nuclear materials. Several nations have already asked for our assistance. It is in the best interests of the world community that we continue these initiatives to prevent these organized crime groups from becoming more powerful and entrenched.

From a U.S. Customs investigative perspective, the main threats posed by Former Soviet Union (FSU) criminal groups, both domestic and foreign, continue to be, narcotics smuggling, money laundering, commercial trade fraud and the smuggling/sale of illicit munitions and strategic materials. Another threat that has emerged in the last few years is the increase in the number of cases involving the smuggling of stolen vehicles from the United States to the FSU.

The typical Customs investigation does not necessarily target the totality of any one particular organized crime group. Rather, Customs' unique nature, as a primary border enforcement agency, and the multifaceted and diverse set of laws that Customs enforces, usually results in investigative and enforcement activity directed at specific criminal activities of organized crime groups. Often the net result of these investigations is the disruption and debilitation of major organized crime groups with subsequent prosecution.

Since 1991, Customs' investigations, relating to Russian organized crime, both open and closed, total approximately 82 cases. Customs investigations at this time have focused on approximately 5-6 primary organizations. These cases range in content from drug smuggling cases to money laundering to export violations and commercial fraud activity. In addition, Customs, working with other law enforcement agencies, maintains an active Russian organized crime intelligence program which has documented over 2000 individuals and companies associated with criminal activity.

The growth of Russian/Eurasian organized crime groups in the United States continues to be a principal concern for law enforcement. Although the Russian Federation has received the majority of attention and press regarding the increase of organized crime activities, the other 14 new republics that were once part of the Soviet Union, and the Warsaw Bloc countries that were controlled by the Soviet Union, are all experiencing a significant rise in organized crime activities. Though now separated by country borders, many of these organized crime groups in the new republics are known to be associated with each other and have worked together in the past. Russia, the largest country in geographic area and population, is the cornerstone of stability in the area. The criminal groups comprised of emigres from the FSU function as an integral part of an international

network with known ties to the Colombian Cartels, Italian Mafia, Israeli organized crime, and other international organized crime groups.

Criminal cells/networks comprised of emigres from the FSU operating in the United States have been identified by many different terms, "Russian Mafia," "Russian Organized Crime," "Organizatsiya," "Malina," "Mafiya," "Odessa Mafia," and "Soviet Criminal Network." According to various sources, some of the cells/networks are aligned with specific leaders, and others by ethnic background, or a particular criminal activity.

The true organizational structure and number of Russian/Eurasian organized crime groups operating in the United States is unknown at this time. Many in law enforcement believe that the groups are organized along ethnic, religious or geographical alliances. However, this theory is not etched in stone, as some groups may be organized strictly for profit.

Based upon available intelligence sources and de-briefings of knowledgeable confidential sources, it would appear that Russian organized criminal groups operating in the United States is not structured in the same manner as traditional organized crime syndicates, i.e. there is no criminal hierarchy or firm chain of command. The complexion of this criminal activity will change in the foreseeable future with the influx into the United States of known crime figures who are members of established crime families throughout the FSU.

Russian organized crime groups are also using the services of commercial information companies in an attempt to gather information on government and law enforcement officials involved in the investigation of Russian organized crime. Clearly, this poses a potential threat to law enforcement officers, since information may include details such as address and telephone numbers, identities of family members, credit card information, vehicle ownership, etc.

The U.S. Customs Service, as a protector of our borders, is the first line of defense in United States law enforcement. Our mission will be seriously challenged by the narcotics smuggling, money laundering, and commercial fraud threats, as well as the smuggling/sale of munitions and strategic materials. Throughout the United States, informal task forces have been established by Customs, to investigate specific FSU emigre criminal cases. The preferable way to deal with this issue, in the areas of concern to the United States, would be through the coordinated exchange of information, better intelligence collection and by strengthening cooperation between law enforcement agencies. Law enforcement should target individuals and companies, and investigate crimes committed by FSU emigre criminal groups, utilizing laws that have been used successfully against other

groups such as the traditional Mafia, Cartels and other high profile criminal organizations.

FSU LAW ENFORCEMENT COOPERATION/ASSISTANCE

Customs Mutual Assistance Agreements

The United States currently has Customs Mutual Assistance Agreements (CMAA's) with 26 nations. These are Executive Agreements negotiated with other nations considered to be critical for customs law enforcement cooperation. These agreements deal with the exchange of information and the enforcement of prohibitions, restrictions, or controls. CMAA's provide a basis for sharing information and coordinating operations in all areas of enforcement.

In the former Soviet Union, we currently have agreements with Russia (1993), Belarus (1994), and Ukraine (1994). We are currently in the process of negotiating agreements with Kazakhstan and Kyrgyzstan. We also have agreements with almost all of the European Union states, as well as, Poland, Hungary, the Czech Republic, Finland and Sweden.

Customs Attache in Moscow

In an effort to capitalize on the growing working relationship between the U.S. and the Russian Federation, Customs has received approval to permanently place one agent in Moscow to work closely with Russian Customs and law enforcement officials. The position has been filled with a qualified Russian speaking agent. Prior to this position being filled, a Customs agent was temporarily assigned to Moscow for the past several months, while our Customs Attache in Bonn continued to assist with investigations in Russia, Ukraine and some of the other Newly Independent States (NIS). The results thus far are impressive. The cooperation we have received from Russian Customs and the Russian Federal Police has been outstanding.

U.S. Customs has had contact with its direct counterparts in the former Soviet Union and the Russian Federation for over 20 years. Even under the Soviet system, relations were cordial and a Customs Mutual Assistance Agreement(CMAA) was concluded. Since 1992, relations with the State Customs Committee of the Russian Federation have been greatly expanded and intensified. A new CMAA was concluded in 1994 and signed during a summit meeting between Presidents Clinton and Yeltsin in September of that year. The Director General of Russian Customs, his senior staff and the 12 directors of their regional customs administrations have all visited the United States and several reciprocal visits have occurred or are being planned. Russian Customs sent representatives to our seminar on Nuclear Smuggling

in September 1995, and they also sent representatives to a U.S.-Russian Preventive Enforcement Technical Workshop in March of this year.

At the working level, Russian Customs routinely shares information and requests investigative assistance through our Customs Attache office in Bonn, Germany. The assistance of Russian Customs in Moscow has enabled us to expand our level and breadth of contacts in Moscow to the Procurator General, other law enforcement agencies and the Interior Ministry in Russia (MVD). In general, U.S. Customs jurisdiction is similar to that of our Russian colleagues, but our investigative authority is much greater. Russian Customs efforts at establishing an investigative or "enforcement" component are underway, but at a nascent stage of development. The most recent visit of Russian officers to the U.S. involved three senior officials responsible for providing security at border posts, investigating smuggling between the ports of entry and responding to threats against customs employees and facilities.

The Russian Customs Service has experienced phenomenal, recent growth. While it was a force of only 6,000 officers in 1991, it may comprise as many as 40,000 by the end of 1996. Our working relationship is expected to grow significantly with the opening of an office in Moscow later this year, and, we believe, that Russian Customs involvement in our non-proliferation interdictions and investigations will be productive in the near future. Both sides view such work as a significant national priority.

Training Initiatives

Our international training efforts stem largely from our role as the lead U.S. law enforcement agency for investigations and border interdiction in the area of drug smuggling, international money laundering, trade violations, and export controls. U.S. Customs coordinates its training in the FSU and Eastern Europe through the Department of State Interagency Working Group (IWG). U.S. Customs has been conducting training and technical assistance in these areas since the early 1980's. For instance in the area of export controls we have provided this type of training to at least 35 countries on four continents and to more than 1,000 customs and police officers. Most of our training efforts relate to drug smuggling, international money laundering, trade violations, strategic violations, and international stolen vehicles.

Our most recent training was the U.S./Russia Preventive Enforcement Technical Workshop. This program built a basis for future export enforcement cooperation by familiarizing Russian export enforcement managers with the United States Government's preventive enforcement programs, measures, and methods. It

focused on the challenges and needs of effective export enforcement, in regards to organized criminal enterprises. We discussed techniques and regulations and laws used by U.S. government agencies to meet export enforcement needs and the role of interagency and international cooperation in detecting and interdicting illegal exports. The training included discussions in Washington, D.C. and visits to export enforcement field operation sites in Ft. Lauderdale and Miami, Florida. The Russian attendees spent two days observing actual enforcement operations at the different field offices of the Department of Commerce's Bureau of Export Enforcement, the U.S. Customs Service and the U.S. Attorney. The training featured presentations and discussions by the U.S. Customs Service, Commerce's Export Enforcement, Export Administration, Treasury Office of General Counsel, the Federal Bureau of Investigation, and the Departments of State, Treasury, Energy and Defense on each of their contributions to export control. The participants then discussed the next steps needed to develop cooperative preventive enforcement to combat organized crime.

Historically, Russian, and the former Soviet Customs, relied heavily on academic training for all new employees. New trainees were expected to attend their Customs Academy for two to four years before actually beginning their jobs, taking such courses as customs laws and regulations, and financial management. Today, with the massive hiring program undertaken by Russian Customs, this type of long term training does not meet their needs. For this reason, we have been trying to assist them in developing shorter more flexible training programs that can be given at field locations and stressing the use of practical exercises. Last September, U.S. Customs conducted a Train-the-Trainer program in St. Petersburg, Russia. The overall objective of this program was to further develop Russian Customs training infrastructure by increasing the number of qualified training instructors. This specific course focused on training related to border interdiction. As I speak, another Customs training team is preparing to travel to Moscow this weekend to conduct a similar Train-the-Trainer course. A third Train-the-Trainer course has been planned to be delivered in Vladivostok later this year.

AREAS OF INVESTIGATIVE CONCERN NARCOTICS SMUGGLING, PRODUCTION and TRANSSHIPMENT

The Russian Federation and many of the other new republics have experienced a dramatic increase in drug use and related crimes. There also has been an enormous increase in the amount of poppies cultivated in a number of the new republics, which have also become transshipment routes for narcotics destined for Western Europe and the United States. Intelligence indicates that FSU organized crime groups are significantly involved in narcotics trafficking. Although arrest statistics and seizures

are low pertaining to FSU emigres' narcotics smuggling activities, past experience has proven that this group has the capability to adapt to any illegal act that generates a profit.

Further, based upon overseas seizures, intelligence, source information and newspaper articles, the FSU (15 new republics) and East Bloc countries have become a major sales market, transshipment route, storage area and production source for many drugs destined for Western Europe and the United States. Heroin from the Golden Crescent and Golden Triangle, is transshipped through the FSU to the United States. In August of 1995, two Polish nationals attempting to smuggle 100 kilograms of heroin into Germany were arrested by German Customs. This is the largest heroin seizure ever made, in what was formerly East Germany.

Another area of major concern is the vast commercial/military shipping fleet of the FSU. Italian authorities recently seized approximately 600 kilos of cocaine hidden inside pallets onboard a Russian commercial freighter. It is believed that this is just one of the freighters under the control of the Russian drug mafia. There are also reports that sailors from the Far Eastern Pacific Fleet are returning from Vietnam with hundreds of kilograms of opium and cannabis.

One should not be deceived by the scarcity of arrests and seizures of narcotics in the United States related to FSU criminal groups. Intelligence indicates that developed FSU criminal groups have vaulted right into the lucrative narcotic business. FSU criminal groups are using corrupt FSU officials, porous borders, import/export companies, transportation companies, etc., to help distribute cocaine across Europe where the profit margin is much greater.

Customs investigations have demonstrated that FSU criminal networks have the capability and organizational skills to mount successful drug courier operations. Evidence that FSU criminal groups in the United States were developing more extensive ties to international drug smuggling began to emerge in early 1991. Since that time Customs has disrupted two separate heroin trafficking rings involving FSU networks.

The first case developed in part from intelligence passed to DEA from confidential sources indicating that U.S. citizens of Russian and/or Polish background were smuggling heroin into the United States. The subjects were allegedly arriving at JFK airport aboard commercial flights originating in Poland or Russia. The heroin itself originated in Thailand and was being transported to Eastern Europe for shipment onward to the United States. Concurrent with this intelligence, DEA purchased roughly half a pound of heroin from two members of the FSU smuggling

organization.

This joint investigation between Customs and DEA eventually led to the arrests of 18 people. An important aspect of this case was not only that it demonstrated the capabilities of FSU groups to engage in heroin smuggling, but also demonstrated their connections to traditional organized criminal groups who were to ultimately receive the heroin and distribute it for the FSU group.

More recently, Customs tracked and disrupted an FSU organization that was shipping heroin to the U.S. using both mail and couriers. The investigation itself began when two couriers of Russian extraction were arrested at JFK for smuggling a total of about seven pounds of heroin. Both couriers, arriving from Poland, had strapped the heroin to their bodies. Each individual indicated that he had successfully smuggled a similar quantity at least once in the past. Operating very similarly to the case listed above, this organization is alleged to have shipped as much as 2 kilograms of heroin a month to the U.S.

The organization used a small but effective group of couriers who retrieved the heroin in three different locations: Poland, Belgium, and Israel. In each case, the heroin was shipped to these locations from Southeast Asia where the FSU organization had supply connections. The heroin was generally shipped to the transit points packed inside television tubes and stuffed animals. The couriers, who body packed the heroin, would return to the U.S. through three points: New York, Boston, and Chicago. Once in the U.S., the heroin was distributed to various individuals responsible for selling the drug, including Hispanic and traditional organized crime elements. During the course of the investigation, at least four of the organization's couriers were apprehended as well as a large portion of the group's members. (See Chart)

Two variations of the group's modus operandi included sending couriers to Israel, where the heroin was passed to them. The couriers then returned to Canada instead of the United States. Once in Canada, the heroin was placed on another courier who was concealed inside a car which was driven across the border into the United States. The other variation used direct mail shipments to the U.S. from Brussels.

In addition to heroin, citizens from the FSU have been detected with cocaine, steroids and other illegally obtained prescription drugs. More recently, opium shipped in the mail from the FSU has been detected at our borders.

Heroin, hashish and cannabis are being transported overland across the Baltic route to Europe. A significant portion of this contraband is then transported to the United States by couriers

or commercial cargo.

With the arrival of a capitalist economic system in the FSU a large number of chemists are now unemployed for the first time in their lives. A number have turned to the production of synthetic narcotics to generate an income. Russian law enforcement authorities fear that Russia has the potential of becoming a major center for the manufacture of synthetic narcotics.

The Customs Service established that some Russian/Eurasian organized crime groups are becoming involved in trafficking of controlled substances in the United States. Furthermore, based on the drug trafficking activities of Russian/Eurasian organized crime groups in Eastern and Central Europe, available indicators suggest that the involvement of Russian/Eurasian organized crime figures in drug-related crimes in the United States will increase. With the growing frequency of travel between Russia, the rest of Europe, and the United States, the United States has become increasingly available to Russian/Eurasian organized crime groups as a site for criminal activities, including drug trafficking.

For example, as illustrated in the attached chart, the framework for the establishment of Russian/Eurasian drug trafficking networks into the United States is already in place. Using existing Russian/Eurasian organized crime contacts and activities in the United States, drug trafficking by those groups could rapidly increase in the near future. Some Russian/Eurasian criminals currently in the United States, or with influence and contacts in this country, are adept in the international smuggling of a variety of contraband. That expertise obviously can be used to facilitate the large-scale involvement of Russian/Eurasian organized crime groups in American drug trafficking.

FSU criminal groups continue to use the establishment of front companies in the United States and throughout the world to cleanse illicit/stolen money from the FSU. The companies are also used for other related organized criminal activities. They are used to obtain visas fraudulently for many FSU criminal figures seeking to enter the United States. Once in the United States these individuals then concentrate on expanding their money laundering and other criminal activities.

VISA FRAUD and MONEY LAUNDERING

The involvement of front companies to file suspect employment based non-immigrant and immigrant visa petitions for known and suspected FSU criminal figures continues to increase. According to the U.S. Department of State, in Russia, visas appear to be a potentially major loophole through which companies

can be established in the United States for the purpose of money laundering and other organized crime related activities. The U.S. Department of State's Bureau of Diplomatic Security, which has statutory authority in visa fraud cases, and INS have a substantial number of investigations targeting such companies.

Although this is not a new phenomenon, the increase in the number of companies and individuals involved is staggering. Historically, FSU criminal groups/figures have been known to be excellent white collar criminals who set up numerous companies to help masquerade their frauds. An example of this was a company called M&S INTERNATIONAL which was based in Antwerp, Belgium. M&S was owned by Rachmiel BRANDWAIN, who was a close associate of Boris NAYFELD, a well known FSU criminal who operated out of Brighton Beach in Brooklyn, NY. According to the attached copy of the October 2, 1995, Newsweek article, in the late 1980's BRANDWAIN was the middleman who helped corrupt Soviet Army officials stationed in East Germany siphon more than a billion dollars in illegal deals. He used his companies and connections to assist the officers in hiding the illegal millions in offshore companies and bank accounts. BRANDWAIN acknowledges his role in this scheme. Subsequently, Boris NAYFELD and a number of people associated with BRANDWAIN and his companies were arrested for smuggling heroin into the United States.

This panoply of criminal activities will complicate Customs efforts in detecting illicit funds laundering/drug smuggling networks while easing the fraudulent entry of suspected FSU organized crime members into the United States.

Currently, the Customs Service is investigating money laundering activities centered around front companies that have been set up in the United States to cleanse illicit/stolen money from the FSU. The FSU authorities have provided the initial information to start the investigations.

Trafficking In Radioactive Materials

The theft and sale of nuclear materials from the FSU is of great concern to the entire world. The world's stability depends upon the control of nuclear weapons and technology. If terrorist groups or nations like North Korea and Iraq are able to purchase nuclear materials or technology from disenchanted scientists and technicians from the FSU, and use them to fabricate nuclear weapons, the nature of the threat facing the United States and our allies would increase significantly. FSU criminal groups have little regard for world stability.

According to the attached copy of the October 23, 1995, U.S. News & World Report article, an illicit deal to sell beryllium was orchestrated by a trading firm with ties to Russian organized crime in the Sverdlovsk region of Russia in early 1992. The

beryllium was shipped from a restricted nuclear research facility near the city of Obninsk to Moscow, then on to Yekaterinburg, in the Sverdlovsk region. It was then transported to Vilnius, Lithuania. The probability that this type of movement could take place without the participation of corrupt officials is unlikely.

Prior to the seizure, an Austrian firm was prepared to pay \$2.7 million for the beryllium. It was reported that the firm had lined up a buyer in Zurich, who was willing to pay \$24 million for the shipment. This buyer was said to represent a Korean interest. The beryllium had caused a brief gang war in Vilnius, where a local crime group tried to extort money from this smuggling operation, and resulted in ten men being killed.

The theft and sale of nuclear materials from the FSU continues to be of great concern to the entire world. It has already been documented on several occasions that criminal groups from the FSU have taken advantage of this situation and attempted to smuggle and sell these materials to the highest bidder. The mind set of FSU criminals is to acquire money, which in the FSU is power, and they will go to any extreme to achieve their goal.

A growing problem related to the dramatic growth of criminal activity emanating from Eurasia and Eastern Europe is that of increased criminal trafficking of low-enriched nuclear materials and related radioactive materials. Information received by Customs from a variety of sources indicates that the theft and smuggling of these materials from the former Soviet Union and Eastern Europe are appearing with increasing frequency in Germany and elsewhere.

:

Europe first began to experience multiple incidents involving illicit low-grade nuclear materials in 1991. These incidents suggested that strategic materials from sources in the former Soviet Union and from the former Eastern Bloc countries were being illegally obtained, smuggled and illicitly offered for sale in Western Europe. An example of this is our undercover investigation into the illegal sale of nuclear-grade zirconium to Iraq. This case is currently at the prosecution stage.

There also are serious concerns over the potential for the illicit acquisition and trafficking of a wider range of nuclear and/or radioactive materials which are more commonly available, as well as commercially useable and saleable substances, such as cesium, osmium, radium and others. Included in this category are plutonium and uranium, in quantities and at isotopic purity levels well below weapons-grade. Materials in this category can be more easily obtained by theft from nuclear, industrial and research facilities, than can weapons-grade material. An example of this is our investigation of stolen and smuggled non-radioactive isotopes by our Detroit office.

In evaluating the current threat posed by this illicit trafficking in nuclear and nuclear-related materials, it is necessary to distinguish between what has been offered for sale on the black market, and what is actually available for purchase as determined through law enforcement investigations. During 1992 and 1993, suspected bogus representations surrounding these offers to sell were numerous, and in 1992 and 1993, there were confirmed illicit transactions in Europe which involved highly enriched uranium and plutonium.

CONCLUSION

We live today in a global community. Technology, communications, and the availability of rapid travel enable organized criminals to conduct international criminal schemes on a global scale. The U.S. Customs Service has undertaken a number of initiatives with the dual objectives of both seizing the contraband and identifying/arresting the perpetrators. Through the continuing collective efforts of the Departments of Treasury, State, Justice, Defense, Energy, Commerce, the Intelligence Community, and our foreign counterparts, Customs will continue to promote global security through enhanced border initiatives.

ATTACHMENT I

INVESTIGATIVE EXAMPLES

The following examples attempt to illustrate the nature, complexity and diversity of organized crime cases that Customs investigates as a matter of priority and mission.

FSU criminal syndicates are active in at least four areas directly relevant to Customs enforcement programs: drug smuggling, money laundering, commercial fraud, and the smuggling of other illegal contraband, including weapons, strategic minerals, precious metals, icons, and stolen vehicles.

Heroin Smuggling

During June, 1991, New York Customs Agents initiated an investigation into heroin smuggling activities as a result of the arrest of two Russian couriers who arrived at JFK international airport with an aggregate amount of 3.209 grams of heroin secreted in body girdles. The heroin originated in Thailand. This investigation disclosed the existence of an extensive network of heroin couriers, comprised of Russian, and former Russian nationals who were entering the United States at New York, and Boston on a bi-monthly basis.

This investigation provided substantial insight into the insular world of drug trafficking by FSU criminal enterprises by illustrating the complexity of investigating an unique divergence of both culture and language. With the advent of heroin's resurgence in America, this investigation ultimately dismantled a network of heroin couriers who possessed the potential to supply a major portion of the eastern coast of the United States.

The arrest of the two couriers ultimately evolved into a five year investigation which revealed the smuggling of heroin via individual courier, and the international mail system. What remained consistent throughout this investigation was that the consignee was always within the confines of the Russian emigre community of New York city.

This joint Customs/DEA investigation ultimately concluded in 1995 with the arrests and convictions of fourteen defendants and the seizure of 5,922 grams of heroin. While this single investigation does not infer that all Russian travelers or emigres in the United States are involved in these criminal activities, the distinct insularity of the Russian community within the United States in terms of cultural and social norms greatly aids in the concealment and expansion of these activities.

EXPORTING OF STOLEN CARS

There are a number of ongoing Customs stolen car export cases throughout the country involving FSU emigres. A good American car is selling anywhere from two to three times its value in the FSU. Law enforcement has determined that emerging organized crime groups utilize the stealing, illegal exportation, and sale of stolen vehicles as a relatively safe way to obtain capital to finance their other criminal ventures, drugs, weapons, etc. The current cars of choice are four wheel drive vehicles. Several Customs investigations from around the country are currently underway into the illegal exportation of stolen vehicles from the U.S. to FSU countries. The minimum value of the vehicles, luxury cars and construction equipment, recovered by Customs so far, totals \$25,000,000, and we have made 77 arrests.

One case of particular interest is a SAC Chicago case. A group of FSU emigres were shipping vehicles that were stolen in New York, driven to Chicago and secreted inside containers and exported to the FSU. A number of arrests have been made in this case. One of the individuals arrested was Ritchardas VASILIAVITCHIOUS believed to be the organizer/leader of this group. VASILIAVITCHIOUS was once the bodyguard for Monya ELSON, but they had a disagreement, and VASILIAVITCHIOUS was shot and wounded in New York and fled to Chicago. In the New York area, other FSU emigre stolen car groups have been dismantled by Customs and local authorities.

Agents of the United States Customs Service, SAC Miami, and detectives of the Metro-Dade Auto Theft Task Force investigated Paulo and Nikita KOBIKOV and other members of a group involved in the exportation of stolen vehicles to Venezuela, Ecuador and the Dominican Republic.

The investigation into this group was initiated during November 1994, with the recovery and seizure of stolen vehicles which were being exported from Port Everglades to La Guaira, Venezuela. Agents and detectives gathered information on several seizures and events which were eventually linked to the KOBIKOVs and two Florida corporations.

On January 20, 1995, as a result of the investigation, Nikita KOBIKOV was arrested and charged with dealing in stolen property. Once Nikita was freed on bond he fled the United States and took up residence in Venezuela. Paulo KOBIKOV then took over the U.S. operations while Nikita coordinated distribution of the stolen vehicles in South America. Due to the lack of effective export controls in South America it is believed that a number of the vehicles were shipped to Europe and possibly the former Soviet Union in a money laundering and narcotics smuggling venture.

During October 1995, information provided by a confidential

source and the surveillance of two warehouses resulted in the seizure of vehicles and the identification of several violators. While tracking down undeveloped leads, more and more information pointed to the involvement of the KOBIAKOVs and their Florida corporations.

This information was presented before a Grand Jury in the Southern District of Florida, resulting in the indictment of Nikita and Paulo Kobiakov and 10 members of the group for violating and conspiring to violate Federal law.

Fraudulent Avionics and Radio Parts Case

Several investigations involve the sale, export and/or diversion of weapons, military hardware, critical high technology, precursor chemicals for biological warfare, military aircraft parts, and assorted missile systems. Some of these investigations are long-term in nature and involve complex international conspiracies that affect our national security and/or related foreign policy objectives.

One example to illustrate this type of investigation is from our Resident Agent in Charge (RAC) Newark office. According to the U.S. Navy, the Customs Service saved them millions of dollars by the success of our investigation. If not for the execution of search warrants, several product components would have been delivered to them for installation within our national defense systems.

While this investigation is not a typical "Russian Organized Criminal activity," in that there is no traditional "mafia hitmen", or "legbreakers"; it does involve a continuing criminal enterprise. The violators were from Russia and Iraq. The material was manufactured in the Ukraine by unemployed Russian technicians, and the method of payment utilized indicated money laundering by front companies. If left unchecked this "enterprise" could very well have expanded into another Russian Organized Criminal Group operating within our country.

Customs successfully completed a wide ranging fraud investigation involving a Newark, New Jersey based company that was defrauding the U.S. Department of Defense by importing Russian made avionics, satellite communications, radar, and radio components and selling the equipment to the United States under military contracts as U.S.-made parts and equipment. Two defendants, who are emigres from Russia and Iran, have been indicted for allegedly defrauding the Departments of the Army, Navy and Air Force. In addition to the fraudulent imports, the U.S. company was exporting U.S. defense technology and data to Russia and Ukraine without an export license, in order that companies there could manufacture the avionics and equipment to U.S. specifications. Defense contracting regulations prohibit

the manufacture of U.S. weapons systems components by overseas companies, unless specifically authorized by the Department of Defense.

New York Zirconium Case

Undercover Customs agents initiated the seizure of 7 tons of nuclear-grade zirconium being shipped from Ukraine to Iraq through the U.S. This resulted in three arrests.

In the course of a covert investigation, Customs agents acting in undercover capacities effected the arrests of three individuals who were attempting to ship large quantities of nuclear-grade zirconium to Iraq in violation of the United States and United Nations sanctions against Iraq. During the course of this investigation, the defendants delivered five tons of zirconium, believing it was destined for Iraq. An additional two tons of zirconium were delivered to U.S. Customs undercover agents in Cyprus, ostensibly en route to Iraq. This shipment was detained by Cypriot authorities, and will be returned to New York as evidence in the trial.

Three defendants were arrested on June 8, 1995, and the above mentioned zirconium was seized. The investigation is continuing with the assistance of the U.S. Customs offices in Rome, Bonn, and Milan. Law enforcement agencies in Germany, Italy, Cyprus, and states of the former Soviet Union are also cooperating in this investigation.

According to the defendants, the source for the zirconium was a General in Ukraine. If the source of the zirconium is indeed Ukraine, this would be the first time weapons-grade material from the FSU has been seized in the United States.

Detroit Isotope Case

Another investigation involves the seizure of non-radioactive isotopes that were illegally removed from Russia to the U.S. The isotopes have a value in excess of \$350 million dollars.

In February 1995, the Royal Canadian Mounted Police in Toronto, Ontario, requested that U.S. Customs assist in locating more than five hundred (500) units of non-radioactive isotopes that were alleged to have been stolen from the Russian Federation, shipped into Canada, and then imported into the United States, by Russian organized crime figures.

On February 3, 1995, the SAC Detroit executed Federal search warrants at the warehouse and recovered the stolen isotopes.

The wholesale value of the isotopes has been placed at \$20 - \$30 million with a retail value of between \$300 - \$350 million dollars. A coordinated investigation is being conducted by the SAC Detroit along with the Royal Canadian Mounted Police and the Central Unit for Organized Crime/Prosecutor General Office, Russian Federation.

MONEY LAUNDERING

In recent months a number of FSU emigres have been arrested/stopped by Customs for failure to declare currency/monetary instruments. In one case, the suspect had \$90,000 in U.S. money orders on his person. This is a typical method used by many money laundering groups. Another individual was stopped with \$170,000 in cash. He claimed that it was the payroll for a Russian baseball team known as the Red Devils that were in Florida. This individual has been connected to a FSU emigre who was arrested by Customs attempting to smuggle marijuana into the United States secreted inside caviar cans.

As stated previously the FSU is facing a serious threat regarding the illegal export of funds/assets to other countries. While some legitimate capital flight is involved, there is significant indication that many of these funds originate from fraud, theft and organized crime activities. One technique believed being used, is that money derived from criminal activity is handed off to couriers at various foreign airports and delivered to Moscow. There the money is legalized through commercial banks, and transferred to European banks in accordance with false contracts between Russian and foreign firms. The money is also laundered by purchasing prime real estate throughout the world, in such places as, England, Monte Carlo, French Riviera, and the United States.

In many parts of the United States a number of entrepreneur class criminals have been investing in real estate with cash purchases from \$200,000 condominiums to \$2,000,000 for parts of shopping malls. Another way the money is laundered is the legitimate purchase of commodities that are then exported to the FSU and sold at an enormous profit. In the early stages of the collapse of the Soviet Union it was reported that Russian organized crime groups in the United States sold rubles for U.S. currency to the Colombian Cartels. The Cartels then bought gold, oil and strategic metals through front companies in Russia. The goods were then sold on the world market, effectively laundering the Cartels' money and providing the Russian organized crime groups with U.S. dollars.

To provide another example, on July 15, 1994, U.S. Customs agents in Seattle received information that a Russian male, who was an Organized Crime figure from Vladivostok, boarded the Russian vessel KAPITAN MAN, in Tacoma, Washington in June 1994, on three occasions. The subject was identified as being involved in criminal activity in Russia.

Based on this information a Customs Treasury Enforcement Communications System (TECS) record was created. On November 4, 1994, Customs inspectors at SEATAC International airport detained the subject for failure to declare United States currency. A search revealed he had \$20,209 in United States currency. Customs notified the Department of State of the information concerning the subject and requested that if the subject applied for a visa for future travel to the United States it be denied. Since that time Customs has been advised that the subject had been denied re-entry into the United States, after the American Counsel General-Vladivostok confirmed the subjects's prior status as the godfather of the Vladivostok mafia, and involvement in a prior homicide. The subject is allegedly attempting to get a Russian passport under a new name so that he can re-enter the United States. State Department has been advised of this information.

STOLEN PROPERTY AND MONEY LAUNDERING

Another scheme utilized by Russian organized crime groups to finance their operations is the purchase of merchandise in our country by checking accounts with insufficient funds.

On November 21, 1995, Sergey Alexsandrovich GARKUSHA was arrested as he attempted to depart Seattle-Tacoma International Airport via Aeroflot Airlines destined for Moscow. GARKUSHA was in possession of merchandise valued at over \$50,000, purchased with checks from a closed bank account. It was later determined GARKUSHA purchased merchandise from EUROPE DISTRIBUTORS, paying by check from an account bearing non-sufficient funds. GARKUSHA was arrested.

GARKUSHA was subsequently prosecuted and convicted in King County District Court in Washington. GARKUSHA was sentenced to credit for time served with partial restitution. GARKUSHA was remanded to INS custody and was deported from the United States on January 17, 1996.

ICONS

The illegal export of icons from the FSU by organized crime groups is also another problem being addressed by U.S. Customs. According to Russian authorities, the icons are not allowed to be exported out of Russia, except with permission for exhibition purposes, because they are considered a national treasure. Every person entering or leaving Russia has to fill out a customs declaration form which contains a line item that specifically addresses the requirement to declare the possession of icons.

Icons depict religious figures of the Russian Orthodox Church and were commissioned and painted primarily for churches. They may depict any one of a hundred or more persons, and may vary stylistically (particularly in the facial features) by the artist or geographic region where they were painted.

After the Russian revolution in 1915, churches were looted and destroyed. Under communism all religious practice was prohibited and all church/religious property became the property of the state. With the fall of communism and the breakup of the former Soviet Union, religious worship was no longer against the law.

The Russian Orthodox Church is now recognized as a main force in maintaining the Russian heritage and culture, and all icons are considered to be property of the Church. Most icons are kept in museums or churches and are well protected. A commission has been established to register icons with a unique number; all icons that do not have a number are turned over to the Church.

Icons were being sold in Russia several years ago (before the fall) for approximately \$200 each. Estimates are that the icons would sell for up to \$2,000 currently.

Another case occurred on November 11, 1993, at Cincinnati International airport. Three Russian icons were seized after inspectors discovered a false-sided suitcase. The three icons examined were of very good quality, did not have a registration number on them, and are considered as cultural heritage items belonging to the Russian Orthodox Church. These icons were returned to the Russian authorities.

OTHER ORGANIZATIONS and INTERESTS

There are various estimates on the number of Russian groups operating in the United States. Some estimates range from 3-4 to approximately 24 different organizations. The following are some of the major organizations in which Customs maintains an ongoing investigative and law enforcement intelligence interest in:

Most of Customs efforts have been directed at the ORGANIZASITYA which is based in New York but which has cells on the West Coast, Denver, Colorado, and in the South (Miami). Overall, there is evidence of Russian criminal activity in New York, California, Florida, Illinois, Maryland, Michigan, Ohio, Oregon, Pennsylvania, Washington State, Massachusetts, and Colorado. The chart behind me illustrates several FSU Organized crime groups and their areas of interest.

The ORGANIZATSIYA. This group is comprised of Russian, Ukrainian, Armenian and Georgian criminals within the Brighton Beach area of Brooklyn, New York. The ORGANIZATSIYA has been in operation in the United States since the middle 1970's with the first influx of Jewish emigres from the FSU. The true structure, size and operational components of the ORGANIZATSIYA are not entirely known since there is limited available intelligence, investigative and source information. The composition of the ORGANIZATSIYA appears to be separate cells that cooperate in situations of mutual interest and shift alliances to meet

particular needs.

Finally, the BRANDWAIN Group is based in Brussels, Belgium. BRANDWAIN is reported to be the godfather of Russian criminal exiles in Belgium. He is listed as the president of various corporations, many of which have commercial linkages to the United States. He is also believed to be involved in narcotics trafficking, money laundering, extortion, murder and the smuggling of stolen autos/parts into the FSU.

In the United States, there are a variety of Estonian, Lithuanian and Armenian groups which are engaged in organized crime. Numerous investigations have been initiated regarding organized crime from the former Soviet Union. These cases have been centered in Philadelphia, Pennsylvania; California; Connecticut; and New York.

Trade fraud cases connected to FSU emigre crime are beginning to grow. Recent cases have involved marking violations on polished diamonds, uranium, caviar, and pianos.

U.S. Customs weapons smuggling cases to date have largely been concerned with relatively low-level military armaments and materials such as AK-47 assault rifles, plastique, and night vision devices.

FUGITIVE ISSUES

Currently, we do not have any major fugitive problems relating to Russian organized crime. However, we do have several fugitives that are associated with Russian Organized Crime. The Customs crimes that they have been indicted for include, money laundering, vehicle theft, fraud, arms smuggling, and narcotics smuggling. With the projected rate of Russian organized crime in the United States and their projected involvement in transnational crimes, it is envisioned that fugitive issues will become more prevalent in the near future.

STATEMENT OF JIM E. MOODY
DEPUTY ASSISTANT DIRECTOR
CRIMINAL INVESTIGATIVE DIVISION
FEDERAL BUREAU OF INVESTIGATION

ON BEHALF OF FBI DIRECTOR LOUIS J. FREEH, I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOUR COMMITTEE AND DISCUSS SOME ISSUES RELATED TO RUSSIAN, EASTERN EUROPEAN AND EURASIAN CRIMINAL ENTERPRISE GROUPS THAT ARE A CONCERN TO THE FBI, AS WELL AS THIS COMMITTEE. IT IS THE FBI'S BELIEF THAT THE EMERGENCE IN THE UNITED STATES OF THESE VERY DANGEROUS, CRIMINALLY DIVERSE AND ORGANIZED GROUPS HAS CAUSED A SIGNIFICANT EXPANSION OF OUR CRIME PROBLEM. THE FBI IS TAKING AN AGGRESSIVE STANCE IN ADDRESSING THESE CRIMINAL ENTERPRISES, DOMESTICALLY AND INTERNATIONALLY, TO KEEP THEM FROM BECOMING ENTRENCHED IN THE UNITED STATES.

GRAVE CRIME IS NO LONGER BOUND BY THE CONSTRAINTS OF BORDERS. SUCH OFFENSES AS TERRORISM, NUCLEAR SMUGGLING, ORGANIZED CRIME, COMPUTER CRIME, AND DRUG TRAFFICKING CAN SPILL OVER FROM OTHER COUNTRIES INTO THE UNITED STATES. REGARDLESS OF ORIGIN, THESE AND OTHER OVERSEAS CRIMES IMPACT DIRECTLY ON OUR CITIZENS AND OUR ECONOMY.

WE HAVE DEVELOPED A VARIETY OF ANTI-CRIME EFFORTS BOTH HERE AND ABROAD TO COMBAT THESE DANGEROUS THREATS. THIS EFFORT HAS BEEN UNDERTAKEN WITH THE SUPPORT OF THE PRESIDENT AND THE ATTORNEY, GENERAL JANET RENO. ONE OF THE MOST EFFECTIVE WAYS TO FIGHT INTERNATIONAL CRIME IS BY BUILDING COP-TO-COP BRIDGES BETWEEN AMERICAN LAW ENFORCEMENT AND OUR OVERSEAS COUNTERPARTS. WITHOUT THESE RELATIONSHIPS, THERE CANNOT BE THE COMMONALITY OF PURPOSE AND OPEN COMMUNICATION REQUIRED FOR SUCCESS. MORE AND MORE OF THESE BRIDGES ARE BEING BUILT, AND SUCCESSES ARE FLOWING FROM THEM.

WE ARE USING A NUMBER OF APPROACHES TO DEVELOP COOPERATIVE LAW ENFORCEMENT PROGRAMS WITH OTHER COUNTRIES. FOR EXAMPLE, OUR LEGAL ATTACHE PROGRAM WORKS CLOSELY WITH A LARGE NUMBER OF FOREIGN POLICE FORCES. NOT ONLY DO THEY COOPERATE ON SPECIFIC CASES, BUT OUR LEGAL ATTACHES -- WHO ARE HIGHLY-SKILLED SENIOR FBI AGENTS -- ALSO FORM A SORT OF DISTANT EARLY WARNING SYSTEM TO ALERT US TO NEW AND EMERGING CRIME THREATS.

ANOTHER VERY POWERFUL TOOL IS TRAINING: THE FBI PLACES A HIGH PRIORITY ON ASSISTING OUR FOREIGN LAW ENFORCEMENT COUNTERPARTS THROUGH TRAINING COURSES HERE AND ABROAD. AND JUST A YEAR AGO, WE TOOK A MAJOR COOPERATIVE STEP WITH OTHER FEDERAL AGENCIES AND OTHER FOREIGN NATIONS WITH THE CREATION OF THE INTERNATIONAL LAW ENFORCEMENT ACADEMY IN BUDAPEST.

THESE AND OTHER PROGRAMS COMBINE TO HELP GIVE THE FBI THE CRITICAL FOUNDATION NEEDED TO EFFECTIVELY COMBAT INTERNATIONAL CRIME.

THIS IS A RARE OPPORTUNITY TO EXTEND THE RULE OF LAW WHILE MOBILIZING LAW ENFORCEMENT TO MEET THE EXPLOSION OF INTERNATIONAL CRIME AGAINST AMERICA. WE ARE EXCEEDINGLY GRATEFUL FOR THE SUPPORT CONGRESS HAS GIVEN US AS WE DEVELOP A STRONGER GLOBAL NETWORK OF EFFECTIVE LAW ENFORCEMENT. YOUR SUPPORT OF LAW ENFORCEMENT TRAINING AT THE DEPARTMENT OF STATE HAS BEEN CRITICAL TO THE SUCCESS OF OUR PROGRAMS.

THE INTERNATIONAL CRIME PROBLEM

THE POLITICAL, SOCIAL, AND ECONOMIC CHANGES OCCURRING

IN EASTERN EUROPE AND IN THE FORMER SOVIET REPUBLICS HAVE PROVIDED SIGNIFICANT, UNINTENDED OPPORTUNITIES FOR ORGANIZED CRIME GROUPS AND CRIMINAL ENTERPRISES IN THESE COUNTRIES TO EXPAND INTERNATIONALLY. EVIDENCE THAT ORGANIZED CRIME ACTIVITY FROM THESE AREAS IS EXPANDING AND WILL CONTINUE TO EXPAND TO THE UNITED STATES IS WELL-DOCUMENTED.

THESE CRIMINAL ENTERPRISES ARE NOT A NEW PHENOMENON TO RUSSIA. THEY EXISTED UNDER COMMUNISM. APPROPRIATE LEGAL TOOLS WERE NOT CREATED TO CONTROL ORGANIZED CRIME AND CORRUPTION ACTIVITIES. WHEN COMMUNISM DECLINED IN THE SOVIET UNION, THE ORGANIZED CRIME GROUPS QUICKLY EXPANDED THEIR INFLUENCE IN THE EMERGING MOVE TOWARD CAPITALISM, AGAIN BECAUSE SUFFICIENT CONSTRAINTS AND LAW ENFORCEMENT TOOLS WERE NOT PRESENT.

THE FBI HAS MANY YEARS OF SUCCESSFUL INVESTIGATIVE AND PROSECUTORIAL EXPERIENCE IN THE BATTLE WITH LA COSA NOSTRA AND OTHER ORGANIZED CRIME GROUPS HERE IN THE UNITED STATES. WE VIEW ORGANIZED CRIME AS A CONTINUING CRIMINAL CONSPIRACY HAVING A FIRM ORGANIZATIONAL STRUCTURE, A CONSPIRACY FED BY FEAR AND CORRUPTION. THIS DEFINITION CAN ALSO BE APPLIED TO THE ORGANIZED CRIME THREAT FACING RUSSIA AND MANY OTHER COUNTRIES. MEMBERS OF A TYPICAL RUSSIAN ORGANIZED CRIME GROUP ARE FOUND AT EVERY LEVEL OF SOCIETY. ORGANIZED CRIME ACTIVITY IN RUSSIA INCLUDES MONETARY SPECULATION, MANIPULATION OF THE BANKING SYSTEM, AND EMBEZZLEMENT OF STATE PROPERTY, AS WELL AS CONTRACT MURDER, EXTORTION, DRUG TRAFFICKING, PROSTITUTION, PROTECTION RACKETS, AND INFILTRATION OF LEGITIMATE BUSINESS ACTIVITY.

TO MAKE MATTERS WORSE, A NUMBER OF RUSSIAN/EURASIAN ORGANIZED CRIME GROUPS AND CRIMINAL ENTERPRISES PRESENTLY OPERATE IN THE U.S.

MANY OF THESE CRIMINAL ENTERPRISES ACTIVE IN THE U.S. HAVE DEMONSTRATED A WILLINGNESS TO WORK IN CLOSE CONCERT WITH OTHER NON-RUSSIAN/NON-EURASIAN ORGANIZED CRIME GROUPS.

WE HAVE SEEN TWO TYPES OF RUSSIAN CRIMINAL ENTERPRISES WORKING WITHIN THE UNITED STATES. THE FIRST TYPE MAY BE MORE APT TO BE CALLED "FRAUD AND ALL OTHER TYPES OF CRIMES, ALL DESIGNED TO OBTAIN MONEY, PERPETRATED BY RUSSIAN SPEAKING INDIVIDUALS". IN THIS FRAUD/FINANCIAL CRIME AREA, IT APPEARS TO BE MORE CRIMES OF OPPORTUNITY, SOMETIMES ORGANIZED BY INDIVIDUALS , INCLUDING GOVERNMENT OFFICIALS, ALL DESIGNED TO ILLEGALLY OBTAIN MONEY.

AS WITNESS WHAT HAS ALREADY OCCURRED IN THE UNITED STATES WITH ALL MANNERS OF FRAUD, MULTI-MILLION DOLLAR GASOLINE TAX AND MEDICAL INSURANCE FRAUDS FOR EXAMPLE, IT IS BELIEVED THIS WILL BE A PARTICULARLY MAJOR CRIME PROBLEM FOR THE UNITED STATES.

AS REGARDS ORGANIZED CRIME, THERE IS NO DOUBT THAT RUSSIAN ORGANIZED CRIME GROUPS, LIKE THE SOLNTSEVSKAYA GROUP AND THE ORGANIZATSIYA GROUP, EXIST AND ARE QUITE POWERFUL. THESE GROUPS HAVE MEMBERS HERE IN THE UNITED STATES AND ARE ATTEMPTING TO GET A FOOTHOLD IN THE U.S. THESE GROUPS WHICH RESORT TO EXTORTION, KIDNAPING, DRUGS, AND OTHER VIOLENT CRIME FOR SOME OF THEIR MAIN REVENUE ARE EASIER TO IDENTIFY, COLLECT EVIDENCE AGAINST AND ULTIMATELY CONVICT AND INCARCERATE.

IT IS BELIEVED THE KEY FOR U.S. AND WESTERN LAW ENFORCEMENT, IN NEUTRALIZING THE FINANCIAL "FRAUDSTERS" AND OC GROUPS, IS TO IDENTIFY AND CONFISCATE THEIR ILL GOTTEN GAINS, I.E. THE "MONEY". EFFORTS ARE UNDERWAY IN THIS AREA BUT MUCH STILL REMAINS TO BE DONE. IN 1994, THE MVD ESTIMATED THAT \$50 BILLION ILLEGALLY LEFT RUSSIA, MUCH OF IT DESTINED FOR THE UNITED STATES.

THE UNITED STATES AND RUSSIA FULLY REALIZE THE NEED FOR JOINT COOPERATION AGAINST CRIMES THAT HARM BOTH COUNTRIES -- AND OTHER PARTS OF THE WORLD AS WELL. THAT IS THE REASON THE FBI HAS OPENED A LEGAL ATTACHE OFFICE IN MOSCOW TO WORK CLOSELY WITH RUSSIAN POLICE AGAINST A VARIETY OF COSTLY CRIMES. FROM JULY, 1994 TO THE PRESENT, THE NUMBER OF CASES WORKED BY THE FBI AGENTS IN MOSCOW HAS INCREASED FROM 20 TO OVER 200.

IF CONGRESS AGREES, AND WITH THE COOPERATION OF THE DEPARTMENT OF STATE AND THE DEPARTMENT OF JUSTICE, WE HOPE TO EXPAND OUR NETWORK OF LEGAL ATTACHE OFFICES AROUND THE WORLD. THE GLOBAL NEEDS ARE GREAT -- AND MANY NATIONS, INCLUDING RUSSIA, ARE WORKING DILIGENTLY TO FIGHT CRIME THAT HURTS THE LAW-ABIDING EVERYWHERE.

ONE OF THE SPECIFIC ISSUES OF GREAT CONCERN TO THE FBI AND TO RUSSIAN AUTHORITIES IS THE THEFT AND DIVERSION OF NUCLEAR MATERIALS -- AND THE POTENTIAL THEFT OF NUCLEAR WEAPONS BY TERRORISTS OR ROGUE NATIONS.

OVER THE PAST YEAR, LEGITIMATE CONCERNS HAVE BEEN RAISED BY THE APPARENT VULNERABILITY OF RADIOACTIVE MATERIALS

TO THEFT OR DIVERSION IN SEVERAL AREAS OF EASTERN EUROPE AND EURASIA. THE SEIZURE OF SIGNIFICANT AMOUNTS OF CESIUM IN LITHUANIA AND THE SEIZURE OF URANIUM IN THE CZECH REPUBLIC ARE EXAMPLES OF THE CONCERNS IN THE INTERNATIONAL COMMUNITY REGARDING THE THREAT OF NUCLEAR PROLIFERATION.

THE RECENT INCREASES IN RADIOLOGICAL-NUCLEAR MATERIAL INCIDENTS THROUGHOUT THE WORLD HAVE CAUSED THE INTERNATIONAL LAW ENFORCEMENT COMMUNITY TO COMMUNICATE BETTER WITH EACH OTHER.

ALTHOUGH THERE HAVE BEEN NO SEIZURES OF NUCLEAR MATERIAL IN THE UNITED STATES, TWO RECENT CASES INVOLVED CONSPIRACIES TO IMPORT RADIOACTIVE MATERIAL INTO THIS COUNTRY. IN NEW YORK, THE UNITED STATES CUSTOMS SERVICE ARRESTED FOREIGN NATIONALS ATTEMPTING TO NEGOTIATE THE SALE OF RADIOACTIVE ZIRCONIUM METAL INTO THE UNITED STATES ULTIMATELY, 45 TONS OF THE MATERIAL WERE SEIZED IN CYPRUS, ENROUTE TO THE UNITED STATES IN THE OTHER CASE, THE CANADIAN CUSTOMS SERVICE INTERCEPTED RADIOACTIVE ISOTOPES ORIGINATING IN RUSSIA BEING SMUGGLED INTO THE UNITED STATES THROUGH CANADA. THE FBI ASSISTED THE CANADIAN LAW ENFORCEMENT AGENCIES IN THEIR INVESTIGATION.

WHILE SOME CRIME PROBLEMS FLOW FROM EAST TO WEST, OTHERS FLOW BACK FROM WEST TO EAST. ONE OF THE MOST DIFFICULT LAW ENFORCEMENT PROBLEMS FACING MANY OF THE NEWLY-FREED AND EASTERN EUROPEAN NATIONS IS DRUG TRAFFICKING. THE SCOURGE OF DRUG TRAFFICKING HAS HAD A DEVASTATING IMPACT ON THE ENTIRE GLOBAL COMMUNITY. RUSSIA, THE NEWLY INDEPENDENT STATES AND EASTERN EUROPE ARE CERTAINLY NOT IMMUNE TO THIS EPIDEMIC.

CRIMINAL ORGANIZATIONS IN THESE EMERGING DEMOCRACIES ARE TAKING ADVANTAGE OF THE RELAXED BORDERS AND IMPROVED TELECOMMUNICATIONS SYSTEMS THAT HAVE EMERGED IN RECENT YEARS TO FACILITATE THEIR ILLEGITIMATE OPERATIONS. THESE COUNTRIES ARE TARGETS OF OPPORTUNITY FOR THE MAJOR DRUG TRAFFICKING ORGANIZATIONS, LIKE THE COLOMBIAN CARTELS, WHICH SEEK TO ESTABLISH NEW AND LUCRATIVE MARKETS.

INTERNATIONAL TRAINING

THE FBI'S INTERNATIONAL APPROACH IN COMBATING RUSSIAN AND OTHER INTERNATIONAL ORGANIZED CRIME GROUPS INCLUDES GENERAL AND SPECIALIZED LAW ENFORCEMENT TRAINING FOR FOREIGN LAW ENFORCEMENT AGENCIES. DURING FISCAL YEAR (FY) 1995, THE FBI TRAINED 4,400 FOREIGN LAW ENFORCEMENT PERSONNEL. THIS TRAINING IS PARTICULARLY CRITICAL WITH RESPECT TO THE POLICE AGENCIES OF SOME OF THE NEWLY-EMERGING DEMOCRACIES.

MOST OF THIS TRAINING IS ACCOMPLISHED BY FUNDING GENEROUSLY MADE AVAILABLE BY CONGRESS TO THE DEPARTMENT OF STATE THROUGH THE FREEDOM SUPPORT ACT (FSA) AND SUPPORT FOR EASTERN EUROPEAN DEMOCRACIES (SEED) FUNDING. THE FBI AND THE DEPARTMENT OF STATE, WORKING TOGETHER, ARE ALSO RESPONSIBLE FOR THE INTERNATIONAL LAW ENFORCEMENT TRAINING ACADEMY IN BUDAPEST, WHICH FUNCTIONS AS THE CENTER FOR LAW ENFORCEMENT TRAINING FOR OFFICERS FROM MANY EASTERN EUROPEAN, RUSSIAN AND EURASIAN NATIONS.

THE ACADEMY AT BUDAPEST PROVIDES AN EIGHT-WEEK PROFESSIONAL DEVELOPMENT PROGRAM SIMILAR TO OUR FBI NATIONAL

ACADEMY PROGRAM AT QUANTICO. DURING FY 1995, A TOTAL OF THREE CLASSES GRADUATED FROM THE BUDAPEST ACADEMY -- EACH OF 33 MID-LEVEL POLICE OFFICERS. THOSE OFFICERS CAME FROM THE CZECH REPUBLIC, HUNGARY, LATVIA, POLAND, ROMANIA, SLOVAKIA, ESTONIA, AND LITHUANIA.

FOR FY 1996, THE SCHEDULE IS MUCH MORE AGGRESSIVE, CALLING FOR APPROXIMATELY 200 PERSONS TO BE TRAINED FROM THE FOLLOWING COUNTRIES: ALBANIA, BELARUS, BULGARIA, CROATIA, ESTONIA, HUNGARY, KAZAKHSTAN, KYRGYZSTAN, LATVIA, MACEDONIA, MOLDOVA, POLAND, RUSSIA, SLOVENIA, AND UKRAINE.

WE CAN BE IMMENSELY PROUD OF THE ACADEMY AT BUDAPEST. IT IS A DIRECT OUTGROWTH OF DIRECTOR FREEH'S TRIP TO EASTERN EUROPE IN 1994 AND PRESIDENT CLINTON'S DIRECTION TO UNITED STATES GOVERNMENT AGENCIES TO JOIN TOGETHER TO BUILD THE WORLD'S CAPABILITIES IN FIGHTING INTERNATIONAL CRIME. THE ACADEMY REPRESENTS THE COMBINED EFFORTS OF THE DEPARTMENT OF STATE (DOS), THE DEPARTMENT OF JUSTICE (DOJ), THE FBI, THE DRUG ENFORCEMENT ADMINISTRATION (DEA), THE INTERNAL REVENUE SERVICE (IRS), THE UNITED STATES SECRET SERVICE (USSS), THE FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC), THE ALCOHOL TOBACCO AND FIREARMS (ATF), AND OTHER AGENCIES AND COUNTRIES. IT IS TRULY A CASE WHERE ALL OF THESE LAW ENFORCEMENT AGENCIES ARE WORKING TOGETHER AS PARTNERS TOWARD A COMMON GOAL. I CANNOT SPEAK HIGHLY ENOUGH ABOUT THE CONTRIBUTIONS DEA, SECRET SERVICE, IRS, ATF AND THE FEDERAL LAW ENFORCEMENT TRAINING CENTER IN THE DEPARTMENT OF TREASURY HAVE MADE IN MAKING THE ACADEMY SUCCEED. THE ACADEMY

BRINGS TOGETHER SEASONED INVESTIGATORS AS INSTRUCTORS AND LAW ENFORCEMENT OFFICERS FROM ACROSS EASTERN EUROPE, RUSSIA, AND THE NEWLY INDEPENDENT STATES TO LEARN POLICING UNDER THE RULE OF LAW. WE ARE ESPECIALLY GRATEFUL TO OUR HOST COUNTRY, HUNGARY.

ON APRIL 22, 1996, ATTORNEY GENERAL RENO AND DIRECTOR FREEH, ALONG WITH HIS OTHER COUNTERPARTS FROM THE UNITED STATES WERE HONORED TO ATTEND THE DEDICATION OF THE INTERNATIONAL LAW ENFORCEMENT ACADEMY. WITH THE RECENT COMPLETION OF RENOVATIONS, THE CAPACITY OF THE ACADEMY HAS BEEN EXPANDED. THE DEDICATION WAS AN HISTORIC MOMENT IN INTERNATIONAL LAW ENFORCEMENT.

THE FBI ALSO IS INVOLVED IN FOREIGN POLICE TRAINING IN MANY OTHER VALUABLE WAYS. FOR EXAMPLE, IN FY 1995, THE FBI PERFORMED A TOTAL OF 10 IN-COUNTRY TRAINING NEEDS ASSESSMENTS. IT WORKS THIS WAY: AT THE INVITATION OF THE HOST GOVERNMENT, WE ANALYZE THAT COUNTRY'S POLICE TRAINING NEEDS AND CAPABILITIES. WE THEN MAKE A RECOMMENDATION OF HOW WE BELIEVE WE CAN BEST ASSIST THE HOST COUNTRY'S LAW ENFORCEMENT CAPABILITIES THROUGH SPECIFICALLY TARGETED TRAINING. THE ASSESSMENTS WERE CONDUCTED IN ALBANIA, BELARUS, BULGARIA, ESTONIA, INDIA, KAZAKHSTAN, KYRGYSTAN, LATVIA, LITHUANIA, MOLDOVA, PARAGUAY, PERU, POLAND, ROMANIA, TUNISIA, UKRAINE, AND URUGUAY.

THROUGH THE FBI'S IN-COUNTRY TRAINING PROGRAM, THE FBI CONDUCTS ONE AND TWO-WEEK SCHOOLS IN FOREIGN NATIONS WHICH CONCENTRATE ON POLICE OPERATIONS AND TECHNICAL SKILLS. WE USE SEASONED, SENIOR FBI STREET AGENT INSTRUCTORS WHO USE

THEIR EXTENSIVE PRACTICAL EXPERIENCE IN TRAINING OUR FOREIGN COUNTERPARTS IN POLICING UNDER THE RULE OF LAW. THE INSTRUCTORS IN THESE PROGRAMS HAVE AN ESTABLISHED EXPERTISE IN CRIMINAL INVESTIGATIONS, ESPECIALLY ORGANIZED CRIME AND WHITE COLLAR CRIME. THEIR CREDIBILITY IS NOT ONLY ESSENTIAL FOR EFFECTIVE INSTRUCTION BUT ALSO IS VERY EFFECTIVE IN BUILDING THE COP-TO-COP BRIDGES THAT WE SO CRITICALLY NEED.

SINCE THE FIRST OF THE YEAR, WE HAVE TRAINED 212 OFFICERS OF THE MINISTRY OF INTERIOR FOR THE RUSSIAN FEDERATION (MVD) IN SEMINARS HELD IN RUSSIA AND AT THE FBI ACADEMY IN QUANTICO. ALONG WITH THE INSTRUCTION GEARED TO THE INVESTIGATION OF CRIMES, WE HAVE PROVIDED TRAINING IN ETHICS AND INTERNAL POLICE CONTROLS -- THE FIRST TIME THAT THIS HAS EVER BEEN DONE AND AN AREA WHICH IS CRITICAL TO THE SUCCESS OF POLICING UNDER THE RULE OF LAW.

OUR IN-COUNTRY TRAINING PROGRAMS ARE PRIMARILY FUNDED THROUGH THE FSA AND SEED FUNDS WE RECEIVE FROM THE DEPARTMENT OF STATE. THE FBI, ALONG WITH OTHER LAW ENFORCEMENT AGENCIES, SUBMIT PROPOSED INTERNATIONAL TRAINING PLANS TO THE DEPARTMENT OF STATE AT THE BEGINNING OF THE FISCAL YEAR. DEPENDING ON THE FUNDING THAT IS AVAILABLE FOR LAW ENFORCEMENT TRAINING, THE DEPARTMENT OF STATE THEN DETERMINES THE FUNDING AMOUNTS FOR EACH AGENCY.

DURING THE PAST TWO YEARS, THE FBI HAS RECEIVED \$8.3 MILLION OF THESE FUNDS FOR OUR TRAINING INITIATIVE. WE HAVE BEEN VERY PLEASED WITH THE SUPPORT WE HAVE RECEIVED FROM THE

DEPARTMENT OF STATE -- ALL THE TRAINING WE HAVE PROPOSED HAS BEEN FUNDED. IN ADDITION, THE FBI HAS USED \$300,000 OF ITS APPROPRIATED FUNDING TO PROVIDE LIMITED TRAINING TO LAW ENFORCEMENT IN OTHER COUNTRIES.

IN FY 1995, THE FBI PROVIDED FSA AND SEED SUPPORTED TRAINING SEMINARS TO OVER 1,800 LAW ENFORCEMENT OFFICERS FROM HUNGARY, POLAND, SLOVAKIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, UKRAINE, RUSSIA, ROMANIA, AND MOLDOVA. IN FY 1996, WE WILL EXPAND OUR TRAINING INTO BELARUS, SLOVENIA, KAZAKHSTAN, KYRGYSTAN, BULGARIA, AND ALBANIA. THE TRAINING PROVIDED IS TAILORED TO MEET THE NEEDS OF THE PARTICIPANTS. TOPICS ADDRESSED INCLUDE BANK ROBBERY, DRUG TRAFFICKING, KIDNAPPING, FINANCIAL CRIMES, WHITE-COLLAR CRIME, ORGANIZED CRIME AND TERRORISM. JUST RECENTLY, FOR EXAMPLE, WE CONDUCTED A WHITE-COLLAR CRIME AND CORRUPTION SEMINAR IN KAZAKHSTAN. ALL OF THIS TRAINING HAS A DIRECT IMPACT ON UNITED STATES PERSONS AND CORPORATIONS WHO HAVE FLOCKED TO THESE COUNTRIES IN SEARCH OF BUSINESS OPPORTUNITIES.

IN ADDITION TO THE TRAINING FUNDED BY THE FSA AND SEED ACTS, THE FBI TRAINED AN ADDITIONAL 2,600 STUDENTS THROUGH OUR OTHER PROGRAMS. THESE PROGRAMS INCLUDED THE CRIME-SPECIFIC INVESTIGATIVE SEMINARS, TARGETED CRIME SCENE ANALYSIS TRAINING AS PROVIDED BY OUR FORENSIC EXPERTS, AND MANAGEMENT TRAINING FOR MID-LEVEL AND EXECUTIVE LAW ENFORCEMENT OFFICERS. LAST YEAR, 110 INTERNATIONAL OFFICERS ALSO PARTICIPATED IN THE FBI NATIONAL ACADEMY PROGRAM AT QUANTICO. THEIR PARTICIPATION ALLOWS AN ADDITIONAL "BRIDGE" TO BE BUILT FROM OUR STATE AND LOCAL OFFICERS

TO THOSE OVERSEAS.

ONE BENEFICIAL PART OF THIS TRAINING IS THE OPPORTUNITY IT PROVIDES THE TRAINERS AND THE TRAINEES TO INTERACT ABOUT SPECIFIC CRIME PROBLEMS BEING ENCOUNTERED IN THEIR COUNTRIES, HOW TO ADDRESS THE PROBLEM, SHARE EXPERIENCES LEARNED IN THE PROCESS AND FORGE NEW RELATIONSHIPS FOR FUTURE COOPERATION ON MATTERS OF MUTUAL INTEREST AND CONCERN. IN SOME OF OUR INVESTIGATIONS, THE FBI HAS BENEFITTED BY BRINGING ACTUAL CASE INVESTIGATORS TO THE UNITED STATES FROM OTHER NATIONS TO WORK SIDE BY SIDE WITH FBI AGENTS.

THIS IS A CONTINUATION OF THE TRAINING WE HAVE PROVIDED AND ALLOWS "HANDS-ON" APPLICATION AND OBSERVATION OF INVESTIGATIVE TECHNIQUES SUCCESSFULLY EMPLOYED BY THE FBI IN OUR ORGANIZED CRIME INVESTIGATIONS.

AS EXAMPLES OF THE SUCCESSES THE FBI HAS SEEN FROM CONTACTS AND LIAISON ESTABLISHED AS A RESULT OF THIS TRAINING, A CENTRAL EUROPEAN WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME WAS ESTABLISHED THIS PAST YEAR AND A SIX-NATION WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME GREW OUT OF THE GERMAN-AMERICAN WORKING GROUP. IN ADDITION TO THE FBI, THEY BRING TOGETHER LAW ENFORCEMENT AGENCIES FROM EASTERN AND WESTERN EUROPE, THE MIDDLE EAST AND CANADA TO DISCUSS SPECIFIC ORGANIZED CRIME THREATS COMMON TO ALL COUNTRIES REPRESENTED. LINES OF COMMUNICATION AND WORKING RELATIONSHIPS ARE NOW ESTABLISHED AND PRACTICAL LAW ENFORCEMENT APPROACHES TO THE ORGANIZED CRIME PROBLEMS OF THE REGIONS ARE PLANNED. AS A DIRECT RESULT OF THIS INITIATIVE,

SEVERAL COUNTRIES WERE, FOR THE FIRST TIME, ABLE TO ESTABLISH CONTINUING LIAISON COMMUNICATIONS WITH OTHER REPRESENTED ORGANIZATIONS ON A DIRECT PROFESSIONAL LEVEL AND TO INITIATE JOINT INVESTIGATIONS.

FOR EXAMPLE, A MULTI-NATIONAL, CASE-SPECIFIC FRAUD SEMINAR WAS CONDUCTED BY THE FBI'S FINANCIAL CRIMES SECTION FROM FEBRUARY 18-22, 1996, IN BERLIN, GERMANY. THE PROGRAM DEALT WITH BANK FAILURES AND BROUGHT TOGETHER INVESTIGATORS FROM THE UNITED STATES, LATVIA, NETHERLANDS, RUSSIA, AND GERMANY FOR A PRACTICAL CASE TRAINING INITIATIVE.

THE RESULTING PRODUCT OF THESE CONSTRUCTIVE MEETINGS IS AN INVESTIGATIVE ORGANIZED CRIME TASK FORCE, INTERNATIONAL IN SCOPE, THAT IS TARGETING SIGNIFICANT CRIMINAL ORGANIZATIONS DETERMINED TO BE A MAJOR THREAT TO MANY NATIONS, INCLUDING THE UNITED STATES.

THE FBI ALSO PRESENTED A NUCLEAR NON-PROLIFERATION CONFERENCE AT THE FBI COMPLEX AT QUANTICO, VIRGINIA FROM APRIL 18-21, 1995, AND TWENTY-EIGHT (28) SEED AND FSA NATIONS SENT REPRESENTATIVES, INCLUDING, AMONG OTHERS, RUSSIA AND UKRAINE. THE CONFERENCE OUTLINED THE PROBLEMS OF NUCLEAR MATERIALS AND WEAPONS PROLIFERATION FROM THE COUNTRIES OF THE FORMER SOVIET UNION AND COUNTER-PROLIFERATION PROPOSALS AND TRAINING INITIATIVES. THE CONFERENCE IS INCLUDED AS A FSA INITIATIVE TO ADDRESS THIS SERIOUS PROBLEM.

THE DEPARTMENT OF DEFENSE AND THE FBI ARE CURRENTLY IN THE FINAL STAGES OF SUBMITTING THE DOD/FBI COUNTERPROLIFERATION

PROGRAM REPORT TO CONGRESS REGARDING PLANS TO PROVIDE INTERNATIONAL TRAINING SEMINARS ON NUCLEAR SMUGGLING. THIS IS PART OF OUR NUNN-LUGAR FUNDED INTERNATIONAL TRAINING SEMINARS PROGRAM ON NUCLEAR SMUGGLING.

THE FBI'S NUCLEAR BIOLOGICAL CHEMICAL PROLIFERATION UNIT IS PRESENTLY IN POSSESSION OF A REPORT COMPILED BY AN FBI TEAM THAT RECENTLY CONDUCTED A TRAINING ASSESSMENT IN THE CZECH REPUBLIC. DURING THIS ASSESSMENT, WHICH WAS COORDINATED BY OUR LEGAL ATTACHE IN VIENNA, THE FBI REPRESENTATIVES FROM THE INTERNATIONAL COORDINATION UNIT, THE FBI LABORATORY AND THE ENGINEERING SECTION, MET WITH VARIOUS CZECH LAW ENFORCEMENT AGENCIES, CZECH NUCLEAR SAFETY OFFICIALS, AND FACULTY MEMBERS OF THE REZ INSTITUTE.

THIS ASSESSMENT YIELDED VALUABLE INFORMATION REGARDING THE CONCERNS AND NEEDS OF THE ATTENDING CZECH OFFICIALS. IT IS PROPOSED THAT THE INFORMATION PROVIDED BY THE CZECHS, WITH REGARD TO THEIR SPECIFIC REQUIREMENTS, WILL RESULT IN ESTABLISHING A TRAINING PROTOTYPE FOR OTHER COUNTRIES REQUESTING SUPPORT IN COUNTERPROLIFERATION MATTERS.

INTERAGENCY WORKING GROUP

AS YOU MAY BE AWARE, THE CONGRESS ESTABLISHED THE INTERAGENCY WORKING GROUP (IWG) TO MAKE RECOMMENDATIONS AS TO TRAINING AND OTHER SUPPORT RECEIVED BY RUSSIA, THE NEWLY INDEPENDENT STATES, ANOTHER EASTERN EUROPEAN COUNTRIES. THIS HAS

BEEN A SUCCESSFUL ENDEAVOR THAT GREATLY ASSISTS US IN THE PROPER COORDINATION OF OUR TRAINING EFFORTS ABROAD.

THE IWG ALLOWS ALL FEDERAL LAW ENFORCEMENT AGENCIES TO PARTICIPATE IN DEPARTMENT OF STATE FSA AND SEED FUNDED TRAINING INITIATIVES WITHIN THE FORMER SOVIET UNION AND BLOC NATIONS, BASED ON THEIR RESPECTIVE LAW ENFORCEMENT JURISDICTION. PARTICIPATION IN THE IWG PREVENTS DUPLICATION AND WASTE OF RESOURCES. IWG PRIORITIES ARE FORMULATED BY THE DEPARTMENTS OF STATE, JUSTICE AND THE TREASURY, AS DICTATED BY THE VARIOUS LAW ENFORCEMENT ENTITIES FROM THOSE DEPARTMENTS, PARTICIPATING ON THE IWG.

THE FBI PARTICIPATES AS A MEMBER OF THE IWG IN CARRYING OUT THE PROGRAMS UNDER THE AUSPICES OF THE FSA AND SEED. LET ME DESCRIBE THE FBI'S ROLE:

* THE FBI, AS THE AGENCY WITH THE BROADEST FEDERAL LAW ENFORCEMENT RESPONSIBILITY, CONDUCTED A MAJOR PORTION OF THE TRAINING AND TECHNICAL ASSISTANCE DURING FY 1995, WITH A SIMILAR SCHEDULE PLANNED FOR FY 1996.

* THE FBI HAS EXCLUSIVE TRAINING IN THE AREA OF ORGANIZED CRIME. OTHER PARTICIPATING AGENCIES LIKE THE DRUG ENFORCEMENT ADMINISTRATION AND THE BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS, LIKEWISE HAVE EXCLUSIVE AREAS OF TRAINING BASED ON THEIR EXPERTISE AND JURISDICTION.

* IN OTHER AREAS, SUCH AS ECONOMIC CRIMES, TRAINING BY THE UNITED STATES SECRET SERVICE, U.S. CUSTOMS SERVICE, FINCEN, AND DEA COMPLIMENTS THAT DONE BY THE FBI.

LEGAL ATTACHE PROGRAM

THE FBI'S LEGAL ATTACHE PROGRAM IS THE SINGLE MOST SIGNIFICANT FACTOR IN THE BUREAU'S ABILITY TO DETECT, DETER, AND INVESTIGATE INTERNATIONAL CRIMES IN WHICH THE UNITED STATES OR OUR CITIZENS ARE THE VICTIMS. BY STATIONING AGENTS ABROAD AND ESTABLISHING OPERATIONAL LINKS WITH FOREIGN POLICE, THE FBI SUBSTANTIALLY EXPANDS THE NATION'S PERIMETER OF LAW ENFORCEMENT PROTECTION. GENEROUSLY FUNDED OUT OF THE COMMERCE, STATE, AND JUSTICE BILL, THE FBI'S LEGAL ATTACHES ARE TRULY OUR FIRST LINE OF DEFENSE.

INTERNATIONAL CRIME HAS GROWN ENORMOUSLY IN RECENT YEARS. TECHNOLOGICAL ADVANCES AND THE END OF THE COLD WAR PROMPTED DRAMATIC INCREASES IN GLOBAL TRAVEL AND TELECOMMUNICATIONS. CRIMINALS HAVE USED THESE CHANGES TO THEIR ADVANTAGE, DIFFUSING THEIR OPERATIONS AROUND THE WORLD TO AVOID LAW ENFORCEMENT SCRUTINY. THE RELENTLESS GLOBALIZATION OF CRIME THREATENS AMERICA BOTH AT HOME AND ABROAD -- AND ALL OTHER LAW-ABIDING NATIONS AS WELL. FOR BETTER OR FOR WORSE, THE GLOBAL VILLAGE IS NOW A LATE-20TH CENTURY REALITY.

OUR EXPERIENCE SHOWS THAT PLACING FBI AGENTS AT CRITICAL POSTS ABROAD PROVIDES THE MOST RELIABLE, EFFECTIVE AND TIMELY MEANS TO COMBAT INTERNATIONAL CRIME -- AND OFTEN AT THE SOURCE. IT IS ESSENTIAL TO STATION HIGHLY-SKILLED AGENTS IN OTHER COUNTRIES TO PREVENT FOREIGN TERRORISM AND FOREIGN CRIME FROM REACHING THE UNITED STATES.

AT PRESENT, THE FBI HAS IN PLACE IN OUR LEGAL ATTACHE OFFICES 70 SENIOR AGENTS AND 54 SUPPORT PERSONNEL IN 23 NATIONS AROUND THE WORLD, FUNDED OUT OF FBI OPERATIONAL FUNDS. DURING FY 1995, THESE OFFICES HANDLED OVER 11,200 MATTERS. THEY ARE THE CONDUIT THROUGH WHICH LAW ENFORCEMENT INFORMATION AND COOPERATION FLOWS BETWEEN THE UNITED STATES AND ITS FOREIGN PARTNERS. THEIR GOAL CAN BE DEFINED SUCCINCTLY: TO KEEP FOREIGN CRIME AS FAR FROM AMERICAN SHORES AS POSSIBLE, TO KEEP FOREIGN CRIME PERMANENTLY AT BAY WHENEVER POSSIBLE, TO HELP COMBAT MORE EFFECTIVELY THOSE CRIMES THAT DO REACH OUR BORDERS. THE WHOLE POINT IS TO PROTECT THE AMERICAN PEOPLE FROM HARM.

FBI AGENTS STATIONED OVERSEAS ARE NOT INTELLIGENCE OFFICERS; THEY ARE NOT A SHADOW INTELLIGENCE AGENCY; AND THEY DO NOT ENGAGE IN ESPIONAGE. THEY ARE LAW ENFORCEMENT AGENTS-- DEDICATED TO FIGHTING ORGANIZED CRIME, TERRORISM, NUCLEAR SMUGGLING, VIOLENT CRIME, DRUG TRAFFICKING, AND ECONOMIC CRIME.

LET ME GIVE A FEW EXAMPLES OF THE DIRECT BENEFITS MADE POSSIBLE BECAUSE OUR AGENTS ARE OVERSEAS AND HAVE THE COP-TO-COP RELATIONSHIPS WITH HOST AUTHORITIES CRITICAL TO EFFECTIVE LAW ENFORCEMENT.

- * IN A MAJOR MOVE AGAINST A GROWING RUSSIAN ORGANIZED CRIME STRUCTURE IN THE UNITED STATES, THE FBI LAST YEAR ARRESTED VYACHESLAV KIRILLOVICH IVANKOV, ALLEGEDLY ONE OF THE MOST POWERFUL RUSSIAN CRIME LEADERS IN THIS COUNTRY, ALONG WITH FIVE OF HIS ASSOCIATES ON FEDERAL

CHARGES OF CONSPIRACY TO COMMIT EXTORTION. THE ARRESTS IN NEW YORK FOLLOWED AN INTENSIVE FBI INVESTIGATION THAT WAS AIDED GREATLY BY THE RUSSIAN MINISTRY OF INTERIOR AND THE ROYAL CANADIAN MOUNTED POLICE AND MADE POSSIBLE BECAUSE OF OUR LEGAL ATTACHES AND THE RELATIONSHIPS THAT HAVE FLOWED FROM COOPERATION ABROAD. THE ARREST WAS BASED UPON FEDERAL ARREST WARRANTS WHICH CHARGE A TOTAL OF NINE INDIVIDUALS. ACCORDING TO RUSSIAN LAW ENFORCEMENT AUTHORITIES, IVANKOV FORMED A SUBSTANTIAL CRIMINAL ORGANIZATION IN RUSSIA BEFORE HE ENTERED THE UNITED STATES ALLEGEDLY TO MANAGE AND CONTROL RUSSIAN ORGANIZED CRIME ACTIVITIES IN THIS COUNTRY. RUSSIAN ORGANIZED CRIME GROUPS USE BUSINESSES IN THE FORMER SOVIET UNION, WESTERN AND CENTRAL EUROPE, AND THE UNITED STATES TO SERVE AS FRONTS FOR LAUNDERING THE PROCEEDS OF ILLEGAL ACTIVITIES AND FOR CONDUCTING HIGHLY PROFITABLE COMMERCE IN GOODS IN THE SUCCESSOR STATES OF THE SOVIET UNION, KNOWN AS THE COMMONWEALTH OF INDEPENDENT STATES. IN NOVEMBER 1994, SEVERAL OF THE DEFENDANTS ALLEGEDLY BEGAN TO EXTORT SEVERAL MILLION DOLLARS FROM AMERICAN AND RUSSIAN BUSINESSES. INTELLIGENCE INFORMATION WAS SHARED ON A CONTINUING BASIS AMONG THE FBI, THE RUSSIAN MVD AND THE ROYAL CANADIAN MOUNTED POLICE. FBI LEGAT PARTICIPATION WAS CRITICAL.

* MOST RECENTLY, FOUR RUSSIANS WERE CHARGED IN NEW YORK FOR CONSPIRING TO DEFRAUD 24 RUSSIAN COMPANIES, INCLUDING A CHARITY ESTABLISHED TO AID THE VICTIMS OF THE CHERNOBYL NUCLEAR DISASTER, OF APPROXIMATELY \$10.8 MILLION.

• IN MOSCOW AS A RESULT OF A JOINT INVESTIGATION BETWEEN THE FBI AND MVD, EVENGIY BYCHKOV, THE FORMER MINISTER OF RUSSIAN PRECIOUS GEMS AND METALS WAS REMOVED FROM OFFICE AND CHARGED WITH VIOLATIONS OF RUSSIAN LAWS. ALSO CHARGED WITH BYCHKOV WAS ANDRE KOZLENOK, THE FORMER OWNER AND OPERATOR OF GOLDEN ADA, A DIAMOND PROCESSING FACILITY.

MANY OTHER IMPORTANT CASES HAVE BEEN MADE POSSIBLE ONLY BECAUSE THE FBI LEGAL ATTACHES ARE ABLE TO FREELY WORK WITH OUR FOREIGN COUNTERPARTS TOWARD THE MUTUALLY-SHARED GOAL OF EFFECTIVE LAW ENFORCEMENT UNDER THE RULE OF LAW.

THE FBI IS DEEPLY GRATEFUL TO CONGRESS FOR THE SUPPORT AND CONTRIBUTIONS FOR OUR LEGAL ATTACHE PROGRAM. A RELATIVELY FEW AGENTS BEYOND OUR BORDERS MAKE A CONTRIBUTION OUT OF PROPORTION TO THEIR SMALL NUMBERS AND THE MODEST AMOUNT OF DOLLARS SPENT.

AS PART OF THE FY 1996 APPROPRIATIONS PROCESS, OUR APPROPRIATIONS SUBCOMMITTEES HAVE ASKED US TO PREPARE A PLAN REFLECTING OUR ASSESSMENT OF BOTH THE SHORT AND LONG-TERM LEGAL

ATTACHE EXPANSION NEEDS. WE HAVE BEEN WORKING CLOSELY WITH THE DEPARTMENTS OF JUSTICE AND STATE TO PROVIDE CONGRESS WITH A CAREFULLY THOUGHT-OUT PLAN DESIGNED TO BETTER MEET THE CHALLENGES WE FACE FROM EXPLODING INTERNATIONAL CRIME AND TERRORISM. THIS PLAN -- WHICH IS UNDER FINAL ADMINISTRATIVE REVIEW -- IS A REALISTIC, DOWN-TO-EARTH ASSESSMENT OF THE VAST CHANGES THAT HAVE OCCURRED IN RECENT YEARS IN THE WORLD, ESPECIALLY IN EUROPE WITH THE BREAKUP OF THE FORMER SOVIET UNION.

QUITE CANDIDLY, CONGRESS HAS TAKEN PLANNING FOR FBI LEGAL ATTACHE OFFICES OUT OF THE CHOPPY ONE-YEAR CYCLE AND PROMPTED US TO DEVELOP A LONG-TERM, COMPREHENSIVE RESPONSE TO A RAPIDLY CHANGING AND WORSENING INTERNATIONAL CRIME SITUATION.

WE ARE GRATEFUL FOR THE SUPPORT CONGRESS HAS GIVEN THESE PROGRAMS. IN OUR VIEW, THIS REPRESENTS CAPITALIZING ON A RARE OPPORTUNITY TO PROTECT OUR CITIZENS BY BEING BOTH PREPARED AND SUFFICIENTLY AGGRESSIVE AS CRIME MOVES INTO THE GLOBAL ARENA.

THANK YOU VERY MUCH. THIS CONCLUDES MY TESTIMONY FOR TODAY.

**STATEMENT OF
EDWARD L. FEDERICO, Jr.
DIRECTOR, NATIONAL OPERATIONS, CRIMINAL INVESTIGATION
INTERNAL REVENUE SERVICE**

**BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS**

MAY 15, 1996

Good Morning Mr. Chairman and distinguished members of the subcommittee. I appreciate the opportunity to be here today to discuss the Internal Revenue Service Criminal Investigation Division's experience with organized crime from the former Soviet Union (FSU).

I would like to highlight a significant point that illustrates the impact of financial investigations — AND the expertise of IRS Criminal Investigation special agents - on combating organized crime. Nearly everyone has heard of Al Capone, but what you may not know is that while many federal and state agencies attempted to prosecute Capone for everything from murder to bootlegging, it took an IRS special agent working undercover to obtain information that allowed IRS to unravel Capone's books and ledgers and to painstakingly build an airtight case against him. America's most infamous gangster was found guilty and sent to prison for income tax evasion.

The Capone investigation was certainly not our largest or most complex investigation; however, it is a perfect example of what we do. When more conventional investigative techniques fail, we follow the money trail — the proceeds of crime eventually lead to the criminal. IRS special agents have been doing this for over 77 years. Some of the most notable organized crime figures who could not hide from the reaches of the IRS were figures such as one of Capone's henchmen, Waxey Gordon who was sentenced in 1932 to 10 years in prison for tax evasion; John Gotti who was sentenced in 1990 to life in prison - among the charges on which he was convicted was a Klein conspiracy, which means he attempted to impede and defeat the lawful collection of income taxes for the years 1984-1989; Rocco Infelise, Chicago's crime boss who was sentenced in 1993 to 63 years in prison for running a bookmaking operation; in February of this year, Anthony (Fat Tony) Morelli, who was sentenced to 20 years for his prominent role in the Red Daisy diesel fuel scheme in Newark; and Chicago's 74 year old mobster Samuel Carlisi who was sentenced in March 1996 to 151 months in prison for failure to pay wagering taxes.

What IRS Does Best

Since our inception as the law enforcement arm of the Internal Revenue Service, we have always known that greed is the powerful motivation behind the crimes we investigate. The crimes we investigate, like the greed itself, are found in all strata of our society. Whenever greed leads to crime, whether income tax evasion or international money laundering, Criminal Investigation is involved. Our investigations take us to corporate board rooms as well as to crack houses. IRS Criminal Investigation special agents fill a unique niche in the law enforcement community, that

of financial investigators. The special agent's accounting and law enforcement skills are essential qualities in conducting investigations which have led to the conviction of high profile criminals who commit increasingly sophisticated financial crimes. The success of our investigations enhances voluntary compliance by increasing confidence with the federal tax system and deterring others from engaging in similar conduct.

Criminal Investigation also cooperates closely with other government agencies to investigate criminal activity. The Bank Secrecy Act, the Money Laundering Control Act and the provisions of Title 26 of the United States Code outline the role and responsibilities of the IRS Criminal Investigation Division in investigations that cross agency boundaries. Thus, our investigations cover not only white collar crime but also crimes involving illegal industry.

For example, drug dealers have been going to jail for years for the illegal distribution of narcotics; however, at IRS, we pursue drug dealers not for the drugs but for their unreported income and for laundering their illegal profits. By focusing our investigations on the "kingpins" of narcotics, we expend our scarce resources on the high dollar, high impact investigations where the nation's taxpayers will get the "biggest bang for their buck." By taking away the thing they prize most, their money, we are shutting down the drug kingpin's money laundering capabilities and ultimately stopping the flow of narcotics onto our streets and neighborhoods.

What IRS Knows About Organized Crime

To combat organized crime one must have a thorough understanding of the criminals involved. This has been particularly true of our efforts to combat motor fuel excise tax evasion schemes that have been perpetrated by organized crime, and

especially by organized crime from the former Soviet Union.

We have identified some significant characteristics of individuals involved in these newly established criminal enterprises.

- They display a remarkable aptitude for sophisticated white collar crime. They are mostly well educated, many having advanced university degrees in mathematics, economics and the sciences. They are adept at functioning in a black market economy and they are skilled at corrupting members of a targeted industry, in this instance, fuel wholesale distributors and retailers.
- They are ruthless, employing threats, intimidation and violence to further their aims. The Russians have a long history of settling disputes in the Brighton Beach, New York area by resorting to murder. Two of the more infamous were the 1989 slayings of Michael Markowitz and Philip Moskowitz, two major players in many motor fuel bootlegging schemes. IRS agents, working in undercover roles, received many threats during the investigation. Threats of violence were delivered in person or by phone, and in other instances funeral wreaths were sent to our undercover offices inscribed "Rest in Peace." During the motor fuel excise tax evasion investigation called "Red Daisy," our undercover offices were set on fire and burned after our undercover agents failed to heed warnings to stop competing with mob-controlled firms.
- They are highly adaptable. They work easily with various ethnic groups and show a willingness to "cut others in" if there is a profit margin for them or if it will further their enterprises. For example, oil dealer Charles Hurchalla, of Exton, Pennsylvania, selflessly agreed to allow the government to use his business and

act as an undercover agent in the \$14.8 million Philadelphia investigation. To gain his cooperation, the Russians presented him with a gold Rolex President watch worth \$15,000 as a bonus or business incentive. During the course of the investigation the criminals suspected that Hurchalla was acting as a government agent, so they summoned him to a meeting in New York City to confront him. They ended up offering him a more lucrative cut of the profits. Hurchalla advised the IRS that "the Russians believe that everyone has their price and with enough money almost anyone, whether in government or private industry, can be corrupted." According to our informants, if this approach does not work, the Russians have a "join up or die" strategy.

- They are not monopolistic; they are fluid. Their structure is different from traditional organized crime. We have observed that a group of Russians may band together to devise and execute a particular scheme and continue in that mode until they are either stopped by law enforcement or until something better comes along. There may be a leader of the scheme but there does not seem to be an organizational hierarchy which continues beyond that particular group. This has been particularly true in the motor fuel excise tax schemes.

Motor Fuel Excise Tax Evasion

What started out as a novel fraud scheme contrived by a fuel retailer in Long Island to steal federal and state gasoline taxes quickly evolved into a serious noncompliance problem resulting in the loss of more than "\$1 billion" in revenue annually. Initially, gasoline was the product of choice.

Gasoline is sold at thousands of retail locations, and gasoline excise tax

revenues constitute almost 70 percent of the approximately \$20 billion in motor fuel taxes collected annually.

To give you an idea of the money involved, an average tanker truck holds 8 thousand gallons of fuel. The combined federal and state taxes per gallon of fuel can exceed 40 cents. So, the average tax per tanker is \$3,200. The complicated "bootleg" or "daisy chain" schemes, devised by the Russians, puts that \$3,200 per tanker into *their* pockets instead of the US Treasury. When one considers that a large scheme can move 10 to 70 loads of fuel per day, the losses can be staggering! This revenue that could have been used to build and maintain our national transportation systems and infrastructure is stolen. These stolen revenues have enriched traditional organized crime families and furnished the means by which "Russian" organized criminal elements initially consolidated and ultimately expanded the scope of their sinister activities in the United States.

To say that these bootleg and daisy chain schemes are complicated, well planned, well organized operations would be an understatement! Yet they can be unraveled. We have been doing that successfully for over 10 years. To briefly demonstrate the complexity of these schemes, the following are some examples of daisy chain and a bootleg-type operations.

Daisy Chain

A daisy chain scheme is the method which was developed by organized crime expressly for the purpose of stealing federal and state fuel excise tax revenues. Daisy chains are schemes which capitalized on weaknesses in our motor fuel excise tax laws. In the typical daisy chain operation, a complex paper trail of motor fuel transactions is

created. At some point along the chain, the sale is fictitiously invoiced as tax-paid fuel, but the company supposedly claiming to have paid the tax turns out to be a fictitious entity, or an entity with no assets called a "burn" company. By the time auditors and investigators unravel the series of transactions to determine the tax liability, the so-called "burn" company has disappeared without a trace of records or assets.

For such an operation to work, the perpetrator must be able to purchase fuel tax-free. In the case of the federal excise tax, this means having a registration number assigned by the IRS on Form 637, Certification of Exemption. Legitimate registration numbers have been obtained for fraudulent purposes by buying out registered companies or falsifying documents of legitimate companies.

The Newark investigation we called "Red Daisy" was an ambitious undercover operation that exposed organized crime influence in the fuel business in New York, New Jersey and Pennsylvania organized and executed by Russian émigrés under the protection of mob boss Anthony (Fat Tony) Morelli. The first phase of this multi-part, two year investigation focused on a scheme which defrauded the federal and state governments of \$60 million in fuel excise taxes. In this scheme, members of the Russian "Mafia" paid tribute to members of New York organized crime families including Mafia godfather, John Gotti. Over 100 million gallons of fuel were sold. The scope of this operation, its inherent complexity and risks involved were daunting.

During the course of this investigation, hundreds of meetings and over 1200 telephone conversations were recorded and transcribed. Surveillances were conducted for months and the documentary evidence filled a 1,000 square foot storage area. As the investigation progressed, our undercover agents became so influential in

the bootleg fuel industry that mobsters warned them to join their operation, get out of the business, or suffer the consequences. This threat became reality when the building being operated by the undercover agents was burned to the ground.

In spite of the dangers involved, the Red Daisy was a great success. As of this date all defendants have been convicted. Moreover, on August 8, 1995, the second phase of the Red Daisy indictment was announced by a grand jury. This indictment charged 25 corrupt fuel dealers, along with members of both traditional and organized crime from the former Soviet Union, with the theft of over \$140 million in federal motor fuel excise tax revenue. This case, currently awaiting trial, is the largest tax evasion case in history.

In Atlanta, our IRS agents unraveled a complicated daisy chain scheme whereby Russians attempted to establish themselves in Georgia. Michael Vax, Ilia Miller and eight other defendants (mostly Russians) fraudulently obtained IRS Form 637 exemption certificates for the purpose of purchasing fuel tax free. They then constructed an elaborate series of daisy chain schemes to steal the excise taxes collected from retailers. They took careful steps to conceal their criminal enterprise, including the creation of double sets of financial records and structuring cash transactions to buy fuel for their bootleg business and return cash to co-conspirators which enabled them to launder their profits. During this investigation, the criminal enterprise sold over 6,000,000 gallons of diesel and 130,500 gallons of gasoline and evaded \$1.6 million in taxes. Vax and his co-conspirators were charged with racketeering (RICO) activity, money laundering and tax evasion. All were subsequently convicted. Vax received a 41 month prison sentence.

Bootleg Scheme

Bootlegging is a term which denotes any scheme to sell illegal or untaxed products. (This harks back to the days of prohibition when organized criminals sold bootleg liquor.) For the Russians, one of the ways in which they get untaxed fuel is by creating false Forms 637 and presenting them to wholesalers to dupe the wholesalers into selling them diesel fuel tax free.

In an IRS investigation in California called "Diesel Storm," Joseph Yosi Ezra and Leah Isaac pled guilty to their involvement in a scheme which stole almost \$2 million in federal excise taxes in just two months. Using false Forms 637, the pair bought over 10 million gallons of diesel fuel tax free and sold it to dealers or at service stations which they owned, thereby giving themselves a competitive advantage so that they could sell their fuel at cheaper prices and still make a profit. These are just some of the schemes investigated around the country. Regardless of size, they dramatically illustrate the potential damage to our economy that can occur if these schemes go unchecked.

I must point out that fuel excise tax evasion hurts not only the federal and state governments by depriving them of revenue, but has a profound negative impact on legitimate fuel distributors and retailers as well. Their market shares erode, their profits decline and some are even forced out of business. Honest businessmen simply cannot compete with criminals.

The History of "Fuel"

In the 1980's, the major oil companies sold many of their brand name service stations and fuel terminals in the New York metropolitan area. Many were

subsequently acquired by members of various immigrant groups, among them immigrants from the former Soviet Union. When the potential of motor fuel excise tax schemes was recognized by organized crime, the Russians were in an ideal position to sell bootleg gasoline at the stations they controlled.

Gasoline

During 1984-1988, gasoline schemes abounded — and they were large schemes which often took years to investigate using traditional methods. Further, no matter how many bootleggers we convicted, more stood ready to become involved in these schemes because the lure of illicit profits was simply too great.

In 1988, legislative reforms moved the point of taxation on gasoline from the wholesale distributor level to the terminal rack. This change resulted in substantially improved compliance. Denied the ability to steal gasoline excise tax revenue, the Russians quickly began to organize instead diesel fuel evasion schemes. Because the demand for diesel fuel is much less than gasoline, the Russians were forced to expand their operations from New York into New Jersey, Pennsylvania, Georgia and Ohio, as well as other previously unaffected areas.

The diesel fuel evasion problem worsened from 1988 to 1991. We began to utilize ambitious, deep penetration undercover operations to address this problem, and we had tremendous success.

For example, over a two year period, beginning in June 1990, taxable gallons of diesel fuel reported declined in the State of Pennsylvania from 963,484,013 to 932,672,803. This drop in taxable gallons reported and the corresponding drop in revenue was almost totally attributable to the influence of organized crime.

Beginning in March 1993 and continuing through August 1995, our undercover operations resulted in 10 major indictments. Collectively, these investigations are some of the most significant in the history of motor fuel prosecutions, involving 136 defendants and over \$363 million in evaded taxes. Among these defendants are some of the highest ranking members of both traditional organized crime and organized crime from the former Soviet Union. To date, 99 defendants have pled guilty or have been convicted; the remaining 37 are awaiting trial. These cases are but a part of the 211 persons indicted for motor fuel excise tax evasion during the past three fiscal years.

These successful prosecutions, including that of the head of the Russian Mob in New York, Morat Balagula, and organized crime boss Victor Orena, Jr., helped break the hold of organized crime on the retail fuel distribution industry in the New York metropolitan area.

Dyed Fuel

In August 1993, Congress passed the Omnibus Budget Reconciliation Act of 1993. The Act moved the point of taxation of diesel fuel from the wholesale distributor level to the terminal rack. Further, this legislation provided that only dyed fuel is exempt from tax after January 1, 1994 and that dyed fuel can not be used on the highway. It must be used for off-road purposes such as for home heating or farm use.

These important legislative changes, supported by the fuel industry, revolutionized the situation by further reducing the opportunity for evasion. The implementation of diesel fuel dyeing was an important step. Formerly, fuel used for tax exempt purposes was not distinguishable from the taxed product. This made diversion of the product for illegal purposes a simple matter. Dyed fuel, by contrast, is exempt

from tax, and because of its vivid red coloring, any attempted use of it on our highways can be readily discovered by the IRS Examination Division through the spot checking of terminals and trucks. This legislative remedy, however simple it may seem, has produced significant increases in compliance.

Revenue Enhancements

As a result of these important legislative changes and our investigative successes, federal diesel fuel receipts increased during calendar year 1994 by \$1.765 billion. Of this increase, \$681 million is attributable to the Diesel Compliance Initiative.

State revenues across the nation have risen an average of almost 7 percent. In the worst affected states, this increase in revenue was almost 20 percent annually.

Cocktailed Fuel

So is the problem fixed? Not yet. The Russians are quite tenacious. Denied one avenue to evade taxes, they seek another. One of the current methods of evasion involves the blending and extending of the volume of taxable fuels. Good fuel is blended with nontaxed products such as kerosene, waste oil, tranmix, toxic waste and other products into a mixture called "cocktailed fuel." Excise taxes are not paid on the extended volume. This method of evasion extends the taxable fuel plus it takes care of the high costs of disposing of toxic waste. Criminals are selling these substandard and dangerous products to unsuspecting retail dealers and motorists in many parts of the country. This junk is clogging engines and even worse, it is polluting our air.

Another new scheme for the Russians involves purchasing taxed fuel (both federal and state taxes) in a low tax state such as New Jersey and shipping it to a high

tax state such as New York. This simple scheme can result in up to a 12 cent per gallon advantage for the criminals in a business in which profit margins are ordinarily 2 to 3 cents per gallon. The State of New York estimates that this type of evasion scheme has cost them \$20 million in revenue in the last 18 months.

During 1994 and 1995, in Los Angeles, California, a group of Armenians and Russians made a concerted effort to dominate the independent fuel retailing industry by carrying out daisy chain evasion schemes to steal state excise tax revenues. Before the recent law changes, this group had previously evaded Federal diesel fuel taxes as well. On September 13, 1995, 15 members of this group were indicted for tax evasion, extortion, drug trafficking and the procurement of prostitutes from the former Soviet Union. Prior to indictment, this group had been actively experimenting with ways to defeat the new federal diesel fuel laws.

Despite the success we have had in combating motor fuel excise tax evasion schemes in the past, it would be naive to think that the Russians will simply abandon their efforts to steal motor fuel excise taxes. We believe they will continue to attempt to circumvent the law.

It should be noted that no matter how successful the government is in prosecuting motor fuel excise tax evaders, the Russians are so clever and persistent that only a comprehensive approach encompassing enforcement, regulation, legislative reform and close federal, state and industry cooperation can truly curtail their operations.

Since 1991, IRS has obtained over 190 convictions against many important members of organized crime and corrupt fuel dealers. The achievements in the fuel

excise tax evasion area are the result of a collective effort and are a tribute to what can be achieved when government and industry work together. I am proud of the role that the Internal Revenue Service, and Criminal Investigation in particular, has played in bringing about these successes.

The Future

We have studied the problems regarding organized crime from the former Soviet Union as it relates to motor fuel excise tax evasion. We have investigated their schemes. Congress has implemented significant legislative changes. As a result, we have seen crime in this area reduced.

I do not want to leave you with the impression that the IRS is only concerned about the effect of organized crime from the former Soviet Union on the fuel business. We have seen these groups branch out into some of the more "traditional" areas of crime. We now have IRS special agents actively involved in investigations regarding narcotics, health care fraud, insurance fraud, prostitution and diversion of assets earned in Russia from the sale of natural resources such as oil, timber, and diamonds.

As an example, in California, Russian emigré Michael Smushkevich was the mastermind of a medical diagnostic testing scheme that generated \$1 billion of fraudulent billings to medical insurance carriers. Approximately \$300 million was paid to the Smushkevich organization which was ultimately wired to foreign cities including Moscow. In September 1994, Smushkevich pled guilty to charges including money laundering and was sentenced to 21 years. The doctor who ran the clinics, Russian emigré Bogich Jovovich, also pled guilty to charges including money laundering and was sentenced to 20 years.

We recognize that the organized criminal element will not go away any time soon in America. But, we continue to stay on the paper trail of these organizations.

So, is the problem of organized crime from the former Soviet Union fixed? No. One means by which these criminal organizations might be more effectively combated in the future is through international cooperation.

Earlier in this statement, I made numerous observations about the Russians. Well, there is someone else who is also watching this group of organized criminals very closely - and they, too have concerns. They are the newly formed Russian Government's national police, called the MVD, and the Russian Tax Police. We are joining forces with these officials in areas of mutual concern to create a formidable force that might just break and hopefully dissolve this threat of organized crime from the former Soviet Union.

Since March 1995, IRS has taught financial investigative techniques to over 350 law enforcement personnel from the Russian Federation of Tax Police, the Ukraine Ministry of Finance and state tax inspection police, the Ministry of Finance in Minsk, Belarus, and mid level managers and criminal investigators of the Russian Tax Police in St. Petersburg, Russia. The student population ranges from the Assistant Minister of Finance, to the top Tax Police, to the Ministry of Internal Affairs, to regular tax police.

Additionally, a 12 hour course has been, and is continuing to be, taught by IRS special agents at the International Law Enforcement Academy in Budapest, Hungary. This academy is a State Department- sponsored program which has the full support of the IRS - in fact, IRS Commissioner Margaret Richardson participated in the dedication ceremonies of the academy in April of this year. Some of the course topics taught by

IRS include Documentation and Evidence, Indicators of Financial Fraud, Money Laundering, and Methods of Proof.

Additionally, IRS is part of the assessment team which recently returned from Moscow. The team includes a representative from the Secret Service, the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Bureau of Investigation. The purpose of the team visit was to conduct a joint needs assessment for the Russian banking system with an eye to preventing fraud and money laundering. The recommendations include tighter banking regulations, new money laundering legislation, and training for law enforcement and the banking community.

During the recent visit to Moscow, the MVD and Tax Police requested that IRS assign a special agent to the Embassy in Moscow to assist and/or work jointly with them on investigations involving financial crimes and money laundering. In coordination with the U.S. Ambassador and the State Department, we are currently considering their invitation.

With continued vigilance, cooperation and legislative support such as I outlined here today, we can make great progress.

Mr. Chairman, I will be happy to answer any questions you and the other subcommittee members may have.

STATEMENT OF IGOR NIKOLAYEVICH KOZHEVNIKOV
DEPUTY MINISTER OF INTERIOR
RUSSIAN MINISTRY OF INTERIOR AFFAIRS

Ladies and gentlemen!

Allow me to express my gratitude for this opportunity to share with you my vision of the aforementioned issue.

A year and a half ago my colleague Deputy Minister of the Internal Affairs General Egorov spoke before you about the development of the organized crime in Russia and its impact on social and economic life of the country.

The analysis of the dynamics and structure of crime demonstrates that the criminalization process that enveloped most sensitive spheres of the social order, continues increasing citizens' anxiety for their personal security, safety of their property, life and health of their loved ones.

Regional separatism has brought about the bitterness of new losses. The embodiment of this monstrous phenomenon was Dudaev's regime which inflicted incalculable sufferings not only on the Chechen but also on other peoples of Russia.

The process of denationalization, inevitable in the course of economy reformation, appeared to be somewhat unclear for a significant part of the society, according to experts, largely due to unjustifiably rapid and high concentration of capital in the hands of individuals.

It not only deepened social inequity among certain groups of population but also intensified struggle for spheres of influence among newborn businessmen, who, in their majority, have criminal experience and ties with the criminal world.

Out of 2.5 million juridical persons accounted for by tax agencies 93% represent non-state sector of the economy. Initially insufficiently regulated by the law it still remains open for criminal structures, as the "purity" of the capital is not an essential condition in privatization and joint-stock transactions.

The hopes of more than 3 million of our inexperienced compatriots driven largely by the intention to protect their savings from inflation but not by greediness and venturesome interests, are buried under the debris of numerous financial "pyramids".

"Transparent" borders, insufficiently stringent registration control of newcomers foreign citizens, permanent flow of refugees and forcibly displaced persons into Russia gave an opportunity to the guests of our country to augment the number of criminals.

By the way, we see all the danger of gaps in our legislation and work along with our legislators on improving the legal basis.

The Parliament Currently has under consideration bills "On organized crime", "On corruption", drafts of Criminal Code and Criminal Prosecution Code of the Russian Federation, a series of principal amendments to other laws in effect relating to crime-fighting.

We expect to receive an extensively renewed modern legal basis for practical use by the beginning of 1997.

Some figures which characterize the state of criminal activity in Russia.

During the last year the number of officially registered crimes was 2.756 thousand which is a 4.7% increase comparing to 1994. 59% of them are qualified by the criminal law as grave offenses.

Two thirds of the officially registered crimes are of mercenary nature, the number of thefts, armed robberies of citizens' homes, vehicle drivers, collectors, currency exchanges significantly increased.

During the past year main efforts of the Russian law enforcement agencies were focused on accomplishing tasks held by the Federal program on enhancing crime-fighting.

The number of solved crimes has increased. Persons responsible for ^{more than} 837 thousand grave offenses have been identified. In order to reimburse damage from illegal activity forfeitures of illegally acquired property and valuables totalled in 1.5 trillion roubles.

At the same time every fourth crime, two thirds of armed robberies, most of the contract murders remained unsolved.

During the last year a set of measures on suppressing activity of criminal groups engaged in drug-trafficking has been implemented.

The growth of drug-related crimes has been noted almost in all regions of Russia. Compared to 1985 (i.e. during 10 years) they have increased by 4.8 times.

Illegal production of controlled substances continues to develop.

The manufacture of drugs in underground laboratories has become a significant factor of their illegal production growth.

However a most dangerous tendency is currently a rapid enhancement of drug smuggling to the Russian territory.

More than half of all confiscated controlled substances are of foreign origin. Almost all of such dangerous and expensive drugs as cocaine, opium, heroin, synthetic drugs quickly filling the Russian market are shipped from abroad by smuggling channels.

Only the customs agencies of the Russian Federation have made 764 apprehensions of drug-traffickers (almost twice more than in 1994), which led to forfeiture of 6.5 tons of narcotics.

The analysis of crimes relating to large shipments of drugs demonstrates that about 25% of persons responsible for them are citizens of the former republics of the USSR. They bring into Russia up to 30% of illegally circulating narcotics. Most of the drug-traffickers are citizens of Ukraine, Kazakhstan, Azerbaidzhan, Lithuania and Central Asian states.

There has been an increase in illegal shipments of drugs from the countries of "far abroad". These primarily are opium from Afghanistan, shipped through Tadjikistan, Kyrgyzstan, Turkmenistan and Uzbekistan, cocaine from Columbia, Peru and the US, heroin from the "Golden triangle" states and controlled medical substances from India. Transit of drugs through Russia to the Western Europe ^{has} becomes increasingly active.

Aggregate estimation of development of the above tendencies allows to make a conclusion that Russia has become a target of international drug-trafficking expansion, *of* Russian criminal drug-trafficking groups.

Let me say a few words on the situation with illegal attempts to seize radioactive materials.

Theft is one of the most dangerous type of crimes connected with illegal trafficking of radioactive materials. 27 of such crimes were committed in 1993, 16 in 1994 and 5 in 1995.

As a rule, they were committed by the employees of the facilities where theft of radioactive materials took place. In 90% of these cases responsible for such thefts were common workers.

Circle of persons involved in further resale has been forming spontaneously during search for the buyers. That accounts for the fact that there are no grounds for insisting on existence of mafia-type organized criminal groups specializing in theft of radioactive materials.

Analysis of the investigation documents demonstrates that the primary object of such criminal attempts are the sources of ionizing radiation used in small quantities in various industrial devices.

Some cases involved theft of technological materials with isotope composition based on metal uranium-238 enriched to a different extent by uranium-235 or its derivatives.

The above radioactive materials can not be used in production of nuclear weapons due to their physical characteristics.

It is essential to note that during 1994-95 we held several meetings with the representatives of the US and German law enforcement agencies where we agreed on the mechanism of joint activities aimed at prevention of such crimes.

I would like to take a closer look at the issues of fighting organized crime in Russia.

Contemporary organized crime is a new qualitative level of professional group crime. This is reflected not only in a high level of professionalism and a developed network of corruption links, but also by a broad scale of its activities and influence exerted on a considerable number of branches of the national economy and power structures.

During the last three years units of the Russian Ministry of Internal Affairs elicited about 22 thousand organized criminal groups with different extent of cohesion, with more than 94 thousand members. Almost every sixth group was involved in inter-regional and international activities, every tenth group had corruptive links with federal institutions.

A violent struggle for the division of spheres and territories of influence was unleashed among criminal clans. In 1995 alone this led to 183 armed clashes leaving 156 murdered and 104 wounded.

Despite the difficulty of the criminal situation, law enforcement agencies did not lose control over the ongoing processes, and, moreover exercised their capabilities of restraining them.

As a result of the undertaken measures criminal activities of 14 000 organized groups were stopped during the last three years. Charges were brought against 41,500 thousand leaders and participants.

The analysis of the available information disclosed a stable tendency of the increase of the number of Russian organized criminal groups engaged in illegal activities abroad.

According to the ^{preliminary} operational estimations of the Russian Ministry of Internal Affairs, approximately 2000 members of 110 Russian criminal groups commit crimes in 44 countries of the world. Out of this number approximately every fifth criminal group has established links in Germany and every seventh - in the United States.

According to our data, about 20 organized criminal groups of Russian origin are involved in illicit activities on the territory of the United States. Their main interests are concentrated in New-York City, Los-Angeles and Miami and include primarily money laundering, finance fraud, racketeering, drug-trafficking, etc. US citizens are becoming their victims; a number of frauds committed in Russia were planned by the immigrants from the former Soviet Union on the US soil.

Today jointly with the FBI we investigate 56 cases which involve over 400 persons suspected of links with the organized criminal groups, and nearly 140 companies and organizations engaged in money-laundering and other illegal financial operations.

The investigations of the cases of the Ivankov's criminal group, the penetration into the computer network of the "Citibank", the group of international swindlers who claimed to

represent a US-based company "NEWTEL CO" are the most vivid and well-known illustrations of our interaction.

I would like to conclude with the following.

The criminals unite and pose a real threat to the entire world community.

Meanwhile, international legal measures of extradition of criminals, and restitution of property or reimbursed money acquired by means of illegal activities are insufficient.

Nowadays the Russian Federation makes considerable efforts to establish an appropriate international legal basis for cooperation between the Russian law enforcement institutions with foreign partners.

It is a fact that the intention to sign a broad-scale US-Russian treaty on mutual legal assistance as soon as possible is stated in the joint statement by the President Clinton and President Yeltsin on cooperation in the field of law enforcement and crime fighting of September 28, 1994 and in the intergovernmental agreement of 1995.

It is desirable that these intentions would be promptly fulfilled.

Thank you for your attention.

STATEMENT OF
MICHAEL FRANZESE

Good morning distinguished members of the Subcommittee.

My name is Michael Franzese and I have been subpoenaed here today to address the Subcommittee regarding my personal experiences with Russian organized crime in the United States. In order to understand the extent of that criminal activity, the Subcommittee needs to be aware of my own background and former involvement in organized crime.

I was born in Brooklyn, New York. My father is John "Sonny" Franzese, former underboss of the Colombo Crime Family, one of New York's five La Cosa Nostra families. In 1975, I became a "made" member of the Colombo Family in a formal induction ceremony presided over by then-Family Boss, Thomas DiBella. I acted in the capacity of "Soldier" from 1975 through 1980, when I was appointed a

"Caporegime" and given a crew of soldiers to preside over.

During the years I was a member, I engaged in criminal activity on my own behalf as well as that of the Colombo Family. Such criminal activity included: tax fraud, loan sharking, gambling, securities fraud, labor racketeering, and extortion.

In 1985, I was indicted in the Eastern District of New York for various racketeering charges. In 1986, as part of a plea agreement with the Organized Crime Strike Force of the Department of Justice, I pled guilty to two counts of the 28 count indictment relating to tax fraud. I accepted a ten-year prison sentence and fifteen million dollars in fines and restitution.

In or about 1987, while in federal prison in California, I decided to sever my twelve-year relationship with the Colombo Crime Family and organized crime in general. As I address the Subcommittee here today, I am no longer a member of organized crime.

In early 1980, while I was a Colombo family soldier, Lawrence Iorizzo, a major independent gasoline wholesaler based in Long Island, New York, came to

me for protection. Iorizzo and Russian organized crime figures, working independently of one another, each figured out how to orchestrate one of the most lucrative government rip-offs of all time -- stealing gas tax money. As you have been told by previous witnesses, this was a complex scam that, over the years, has netted Italian and Russian organized crime hundreds and hundreds of millions of dollars. And the Russians pioneered and perfected these schemes to where, I understand, it is still going on today, despite changes in the law.

I first got involved because some mob figures were trying to shake down Iorizzo. Iorizzo owned or operated some 300 independent gas stations throughout Long Island at that time. It was a cash-heavy operation. I resolved Iorizzo's problem by sending some of my guys over to let these other mob figures know Iorizzo was with me. That ended Iorizzo's problem. In return, I became his partner in the wholesale gasoline business.

Later in 1980, I began working with Russians in the gas tax business. One of my soldiers, a guy named "Vinnie," had been approached by the Russians to help collect a \$70,000 debt. Vinnie's job was to say, "Pay the money or I'll break your legs" and to sound convincing, which he was. My guy came to me with the

Russian's offer to see if I was interested. I was and so I arranged a meeting with the leaders of this Russian organized crime group: Michael Markowitz, David Bogatin, and Lev Persits. These guys owned and operated a wholesale gasoline company in Brooklyn, New York.

These Russians were having problems collecting money owed them. There were also having problems in getting and holding onto the licenses they needed to keep the gas tax scam going. I could help them on both counts. First, the Colombo family's reputation was very effective in causing people to pay their debts. Also, our family had a guy at the Commissioner of Revenue's office at the state house in Albany who could get the necessary licenses.

The Russians were eager to align themselves with someone who could resolve both problems. Because of my association with organized crime, they believed me to be that person. As it turned out, I was.

We arranged a sit-down on a Saturday morning, in the fall of 1980, at a Mobil station they owned in Brooklyn. The three Russians told me how they were stealing tax money due the government on the sale of gasoline and how they often

ran into problems collecting some of the illegal proceeds from their customers.

We cut a deal whereby they agreed to become part of my organization. I would provide them with protection from the other mob families and the muscle to collect all the money due them. Through the services of Lawrence Iorizzo and our gasoline operation they would have access to the wholesale licenses they needed to defraud the state, county, and federal government out of tax revenue. We agreed to share the illegal proceeds: 75% my end - 25% their end. The deal was put on record with all five crime families and I took care of the Colombo family share of the illegal proceeds out of my end.

Over the next four and a half years, the combined Russian/Iorizzo organization, which I controlled, defrauded the United States government and the states and counties of New York, Connecticut, New Jersey, Pennsylvania, and Florida out of hundreds of millions of tax dollars due on the sale of gasoline.

To give you an idea how lucrative the gas tax business was, it was not unusual for me to receive \$9 million in cash per week in paper bags from the Russians and Iorizzo. Our profits ran anywhere from two to thirty cents per gallon,

and, at one point, we were doing 400-500 million gallons per month. I'll leave it to you to do the math.

During that time, I became very closely involved with the Russian group. I found them to be intelligent, possessing remarkable business instincts that they would not hesitate to use for illegal gain. As a result of their experiences living in Communist Russia, they have little respect for United States law and little fear of American prisons.

They would frequently approach me with other illegal business ventures and were eager to share in illegal deals I would propose to them (loan sharking, insurance fraud, securities fraud). One of the business ventures we jointly entered into was buying a bank in Austria. The purpose was to be able to use this bank to finance other organized crime ventures. I invested \$10 million from Colombo family gas tax profits in this bank. Including the money invested by the Russians, the bank had a total of \$80-100 million in assets. Bogatin later went to Austria, where he played an active role in operating this bank. Also, Iorizzo created a "slush fund" from gas tax money, which he kept in this Austrian bank. That account amounted to \$15 million when the Government seized it after Iorizzo's

arrest.

I found the Russians to be a group that wanted to flex their muscles and would not hesitate to resort to violence when they felt it necessary to do so. They enjoyed the relationship with both myself and the Colombo family because it gave them power and recognition as a group to be reckoned with.

I did not find the Russian criminals to be a very structured group in comparison to the Italian La Cosa Nostra. They were very "clannish," however, and the most financially successful Russian was looked up to by his comrades as their leader or boss. The boss was given a lot of courtesy and respect and, in return, provided the members of his group with opportunities to work for him and make money.

Michael Markowitz, David Bogatin, and Lev Persits were all in a position of leadership and had about 200 other Russians working under them in various capacities. They were also continuously assisting other Russians in immigrating to the United States.

After I went to prison in 1985, my information was that Markowitz, Bogatin and Persits did continue to work with the Colombo family in the gasoline business for a short period of time.

Around 1988, Markowitz was shot and killed in front of his home in Brooklyn. I do not know who was responsible for his death, however, I am reasonably certain that the hit was authorized by the Colombo family and could possibly have been carried out by other Russians.

An attempt was also made on the life of Lev Persits. Although he survived the attempt, he is permanently disabled and confined to a wheelchair.

David Bogatin fled to Austria where he had a controlling interest in the bank that was funded with gasoline tax money from our operation. He was captured in Poland, extradited to the United States to face tax fraud charges and is currently serving a federal prison sentence.

I have provided the Subcommittee with a basic overview of my personal experiences with Russian immigrants engaging in criminal activities during the 1980's. I hope this information is helpful. I would be happy to answer any questions the Subcommittee might have. Thank you.

STATEMENT OF ANTHONY CASSO

Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Anthony Casso. Early in my life, I was given the nickname "Gaspipe."

I have been in jail since 1993, when I was arrested after being a fugitive for almost three years. At that time, I was the underboss of the Lucchese organized crime family. Ultimately, I decided to cooperate rather than go to trial. As part of my deal with the Government, I pleaded guilty to a 72 count indictment, including murder, racketeering and extortion. I have not yet been sentenced, and no promises have been made to me for my testimony here today.

As part of my cooperation agreement, I told the Government about my life of crime. I gave a deposition for use in an Israeli trial, but I have not yet testified at a trial in the United States. I will testify, if requested by the Government, at upcoming organized crime trials.

I have been involved with organized crime for more than 35 years, since I was a kid working on the docks in Brooklyn, New York. When I was 21, I became associated with a guy named Chris Furnari of the Lucchese organized crime family. Everybody knows him as "Christy Tick."

Before I was arrested this time, I had only been in jail once. That was in 1962 for five days when I was convicted of running a bookmaking operation on the docks and fined \$50. After that, I was arrested several times for different Federal and state charges, including assault with a gun, selling stolen property, dealing heroin, burglarizing a bank, and bribing state parole officers. In every case, I was either acquitted or the charges were dropped.

In the early 1970s, I met Vic Amuso. Then, in 1974, I became a "made" member of the Lucchese family. Vic was made in around 1977. At that time, "Tony Ducks" Corallo was the boss of our family. But, in 1986, Tony Ducks went to jail so he had to name a new boss. I became a "capo" in 1986. After discussions within the family, Tony Ducks made Vic Amuso the boss at the end of 1986. At the end of 1987, Vic told me I was the new consigliere. Then, in 1989, Vic named me the underboss of the family. After Vic was arrested in July 1991, I ran the Lucchese family as underboss while I was a fugitive.

In my position as a member of the Lucchese Family, I came to know individuals associated with Russian organized crime, which is the subject I have been asked to testify about today.

In the mid-1980s, our family got involved with Russian organized crime in the gasoline business in Brooklyn. Italian and Russian organized crime made large amounts of money by working scams to avoid paying taxes on gasoline. The Russians owned hundreds of gas stations and controlled the supply and distribution of gasoline. We provided them with protection they needed to maintain a cartel. We also helped them set up corporations to work the scam.

The main Russian guy working with our family was Marat Balagula. Marat was one of the early leaders of Russian organized crime in Brooklyn. He made millions off the gas tax business and our family made a lot of money with him.

In around late 1986, another Russian named Vladimir, whose last name I did not know at the time, came up to Marat in a Russian restaurant in Brighton Beach. Vladimir had recently arrived in Brighton Beach from Russia. According to the Russians, the word on the street was that he was a tough guy with his own crew. Marat told me Vladimir pulled a gun, put it next to Marat's head, told Marat that he was his new partner, and demanded Marat pay him \$600,000 or Marat would be dead.

Marat reached out to us and told us what happened. We agreed to meet the next day. When we went to Marat's house, we found out that he was so scared that he had a heart attack but did not want to go to the hospital. I remember seeing Marat in bed hooked up to all kinds of machines, refusing his doctor's orders to go to the hospital. Marat's guy wanted us to kill Vladimir.

Since Marat was with our family and especially since he was such a money-maker for us, this was not just a threat against Marat. This was a threat against the Lucchese family as well. We knew what we had to do. Vic and I agreed that Vladimir had to be killed. We took this situation to Christy Tick, who agreed we could have Vladimir killed. Vic gave the hit to Joey Testa.

We asked Marat and one of his guys to get us some information to identify Vladimir. One of Marat's guys got us his picture and license plate number. We had Marat call Vladimir and arrange to have lunch with him at the same Russian restaurant in Brighton Beach where Marat was threatened. After leaving the restaurant, Vladimir was shot and killed.

I heard about the murder on the radio. Marat was very thankful that we had gotten rid of his problem. We couldn't let somebody try to put the squeeze on one of our family's big money makers. After that, Marat did not have any more problems from any other Russians.

I found the Russian organized crime groups to be very clever. We knew the Russians were involved in heroin trafficking, as well as complicated scams involving forgery, and tax evasion in the oil and gas business. The Russians were also willing to use violence to achieve their goals.

I will be happy to answer any questions you have about my knowledge of Russian organized crime.

STATEMENT OF ANONYMOUS RUSSIAN CRIMINAL

Chairman Roth, members of the Subcommittee, good afternoon.

I have been asked to testify today about Russian organized crime in the United States, a problem which exists in several cities and is likely to grow. Let me explain the two reasons why I am able to speak on this subject. First, I grew up in Russia with people who are now leaders of criminal groups worldwide, including here in the United States. My father was a high-ranking officer in the Soviet military, and so, as a boy, I attended the best schools and socialized with the communist party elite. My classmates included many future politicians and criminal leaders.

Second, since 1992 I have lived in the United States and know many of the Russian criminals who have settled here. Some of these men -- such as Leonid Zuza and Vyacheslav Kirillovich Ivankov, or, "Yaponchik" -- might be familiar to you. They are to me. What you have to understand is that the well-to-do Russian community in this country is rather small, and that the successful Russian criminals are part of it.

Through my business and social contacts, I was a part of this community. But I have been in prison for the past year. I am serving a sentence for the possession of a firearm, which violated the terms of my probation agreement. I am testifying behind this screen today because I believe that, if my identity were known, I or my family might be killed.

To understand Russian organized crime in this country, you must first appreciate the situation in Russia. For the two years prior to my arrival in the United States, I set up and ran the Moscow branch of an American corporation specializing in investments and international trade. We had a beautiful office three minutes from Red Square. Now there are two things you must do to operate a business successfully in Moscow. First, you must pay the right government officials under the table. Because I had known officials in Moscow since I was a child, figuring out whom to pay was simple. To set up our office so close to Red Square, I had to pay money to the chief of government property in Moscow. Later, when we wanted to open a supermarket in Moscow, I paid cash to the mayor of Moscow, Yuri Luzhkov.

The second thing you must do to run a successful business is purchase a

krisha, literally "roof" in Russian, which has come to mean protection. The more important you are, the higher the roof must be. In Moscow, organized crime provides the roof. Back in 1990, I could pay one organized crime group say, ten to twenty percent of our profits, and it would make sure I didn't have trouble with any other groups. There was crime, but at least it was orderly. Leaders of the major organized crime groups in Moscow would meet regularly to divide up opportunities. But as time went on, things got out of control. Fighting broke out among the organized crime groups in Moscow and several of the leaders were assassinated. Otari Kvantrishvili, at that time the most powerful organized crime figure in Moscow and a friend of mine, was the first to be killed. Several others followed. Most of these men were vory v zakone, a title reserved for powerful Russian godfathers.

As I said, things got out of control. I didn't know which roofs to pay and which were safe to ignore. Men were showing up regularly and demanding protection money. I came to the United States to escape this turmoil. And I can tell you, many criminals have as well. Some are thugs who worked as enforcers or muscle in criminal groups based in Russia. These men are responsible for much of the violence that has taken place in Brighton Beach and other communities where

Russians are concentrated in this country. These men are also disorganized and looking for a leader to devise a profitable criminal venture; someone like Ivankov. These are dangerous men, but would be far more so behind a clever leader.

There is a difference between the Russian criminal who immigrates to the United States today and the one who came in the 1970s and 80s. Fifteen years ago, Russian immigrant criminals were, on the whole, smarter than today's lot. The schemes they executed -- Balagula's fuel tax evasion, the medical insurance fraud of the Smushkevich brothers -- made them millionaires. As I said before, most of the current wave of Russian criminals is more prone to violence, but less resourceful than their predecessors. Whether or not they left Russia with money -- they will run out. And they will be looking for ways to make more.

Russian organized crime in this country includes criminals from both immigrant waves. They are involved in a number of illegal activities, many of which I understand you have heard about earlier today. These range from money laundering to extortion to car theft to drug smuggling to insurance and gas tax fraud to murder. Some of these crimes I know about specifically.

For example, I know of Russian criminals in this country who ship guns and cocaine back to Russia. These men have beautiful offices in Rockefeller Center and Beverly Hills and look like legitimate businessmen. They run import-export businesses funded by the mafia over in Moscow. Much of what they trade in is legal, but much is also illegal. For instance, they purchase cocaine in the United States for twenty to thirty dollars a gram and sell it in Moscow for one hundred to one-hundred fifty dollars. In Moscow, cocaine is a habit of the very rich, which means only three types of people can afford it: newly-rich businessmen and politicians; prostitutes; and criminals.

I know of murders, as well. I knew Oleg Koratayev, the famous Russian boxer who was shot and killed in Brighton Beach outside the Arbat restaurant. I know also that, in the summer of 1994, Leonid Zuza ordered the murder of another ex-boxer named "Dmitry" because he refused to pay Zuza \$17,000 he owed him. The killer, a Russian named "Vladimir" who worked for Zuza, shot Dmitry on a patio outside a cafe on Melrose Avenue in Los Angeles.

I also know about extortion, which Russian criminals practice all over the world, mainly on fellow Russians. I myself was approached by a group of Russian

criminals. They showed me pictures of my family. They did not have to tell me why. What they meant was, if I did not pay them money, my family would be harmed or killed. They demanded tens of thousands of dollars. The leader of the group came to my house one night to collect this money from me, but I had a shotgun and he chose to leave.

Professional hockey players from the former Soviet Union are also victims of extortion. And the extortion does not just happen in Moscow or Kiev, it happens here. Alexander Mogilny, who plays for the Vancouver Canucks, was threatened by Sergei Fomichev, a man I know. Fomichev had helped Mogilny come to this country. A couple of years ago Fomichev came to Mogilny, threatened him and demanded money. Mogilny was scared and went to the police who caught Fomichev before anything happened. Fomichev has ties to Russian organized crime groups.

Often, when a Russian criminal demands money the threat is not explicit. But it is clearly understood. Alexei Zhitnick, a defenseman for the Buffalo Sabres, used to play for the Los Angeles Kings. He showed up at a Russian club in Los Angeles one night with a new car, expensive clothes and beautiful women. He was

young and naive. A man named Sasha, whom I know is connected with a Russian criminal group, approached Alexei and demanded money from him. Sasha was sending Alexei a warning, to make sure he thought about his future in Los Angeles. Alexei did not go to the police. Instead he went to a more powerful criminal group to take care of the problem for him, which I understand it did.

I also know Vladimir Malakhov, who plays for the Montreal Canadiens but used to be with the New York Islanders. He was approached in the National restaurant in Brighton Beach by a man who worked for Ivankov. The man demanded money from Malakhov. He didn't have to threaten him explicitly; the message was clearly understood. Malakhov spent the next months in fear, looking over his shoulder to see if he was being followed, avoiding restaurants and clubs where Russian criminals hang out. Fortunately, the problem went away when Malakhov was traded to Montreal.

These are just a few stories to illustrate the illegal activities of Russian organized crime in the United States. What we have here cannot compare to the criminal activity and structure in Russia. But what we have here is a problem that is growing. Just last week I heard that another vory v zakone, or Russian godfather, recently arrived in the United States. As I said, when leaders arrive the problems will multiply.

I am happy to answer your questions.

Testimony of Detectives Daniel Mackey and Ralph Cefarello before the
Permanent Subcommittee on Investigations
May 15, 1996

Good morning. Chairman Roth, Senator Nunn and members of the Permanent Subcommittee on Investigations. My name is Detective Daniel Mackey of the New York City Police Department. On behalf of myself and my colleague, Detective Ralph Cefarello, thank you for this opportunity to testify about Russian/Eurasian criminals operating in New York City and what is being done to stop them.

Previous speakers have given you international and national perspectives. Our view of this most serious crime problem is that of working detectives, catching cases involving suspects and, quite often, victims who were born in the former Soviet Union.

I work in a precinct detective squad that covers Brighton Beach, Brooklyn. Since the late 1970s, Brighton has become home to an ever-growing number of Russian-speaking immigrants from a variety of former Soviet Republics, including Georgia, Azerbaijan and Chechen. The great majority are hard working, law-abiding citizens who have revitalized a neighborhood that has come to be known as "Little Odessa." Brighton Beach Avenue is lined with thriving markets, restaurants, nightclubs, clothing and video stores that all cater to Russian-speaking customers. It is possible to go about your daily business in Brighton without uttering or reading one word of English.

Unfortunately, Brighton is also a hub for Russian-born criminals with a well-deserved reputation for extreme violence. Their criminal activities include vicious murders and assaults, extortion of Russian-owned businesses, prostitution, illegal gambling and a vast collection of frauds and schemes that ravage the economy, costing government, businesses and consumers millions.

We have encountered staged motor vehicle accidents in which all participants claim back and neck injuries, then file insurance claims for medical services provided by Russian-operated medical groups also believed to be in on the scam. We have, in joint operations with the United States Secret Service, dismantled sizable cellular phone-cloning networks run by Russian/Eurasian nationals.

While we have had some success, it is often difficult and, frankly, quite frustrating, to investigate these illegal activities – for the same reasons it has always been difficult and frustrating to investigate crimes committed within a close-knit immigrant community. To a large extent, the criminals count on language as a barrier, as well as a presumed reluctance on the part of fellow immigrants to cooperate with police – especially if the police in their homeland were viewed as agents of an oppressive regime.

The NYPD has relatively few police officers and investigators who are fluent in Russian. The language barrier may hinder an investigation in several ways: the first officers or detectives to arrive at a crime scene may have to scramble for translators. And, it's tougher to field traditional undercover operations used in public morals cases.

For example, Russian-run brothels are extremely lucrative, but do not cater to non-Russian clients. We have attempted to use undercover "Johns" who do speak Russian, but even they require an introduction from a credible go-between, which has proven difficult to obtain.

We have investigated numerous cases involving the extortion of Russian-owned businesses, sometimes referred to as "window insurance." It is not uncommon for complainants in these cases to cooperate only up until the time an arrest is made, then refuse to follow through on the prosecution.

When the crime is murder, witnesses willing to cooperate are also scarce. At this time, I'd like to introduce Detective Cefarello, who will provide a brief overview of our experience with murder investigations of Russian crime figures.

Good morning. My name is Detective Ralph Cefarello. I am currently assigned to a new citywide investigative unit specifically created to combat the criminal activity you are hearing about today.

In the past 15 years, there have been a total of 42 murders and 24 attempted murders in New York City known to be linked to Russian/Eurasian criminal organizations. Many of the murder victims served time in prison in the former Soviet Union or were known to engage in criminal activity there; several were accomplished athletes in contact sports such as wrestling, boxing, or one of the martial arts. Commonly, the motives for these murders involved disputes over profits from illegal activities and turf battles over extortion rights.

Witnesses in these cases were often less than forthcoming. Take, for example, the murder in Brooklyn of a former Soviet heavyweight champion. This individual, who was involved in strong-arm extortions and narcotics

trafficking, was shot and killed in front of a Russian nightclub on Brighton Beach Avenue. He had been among some 75 guests at a private party. His killer had also been present during the festivities. We talked to everyone who had been present at the party. The story was the same, interview after interview. No one saw or heard anything. No one could identify the victim. No one could identify his killer.

Despite, these types of investigative obstacles we've been able to clear 15 of these 42 homicides and we expect to prosecute those responsible for numerous other murders pursuant to active RICO investigations with federal prosecutors.

It is important to note that cooperation among local, state and federal law enforcement agencies remains an essential ingredient of any successful strategy to address this problem. NYPD detectives meet regularly with representatives of other agencies; these information-sharing sessions have proven quite productive.

Finally, thank you for your interest in a crime problem we are working so hard to eradicate. We already enjoy the leadership and support of Mayor Rudolph W. Giuliani and Police Commissioner Howard Safir. Any additional federal resources you could send our way would be greatly appreciated and well used to permanently stunt the growth of Russian organized criminal activity on our shores.

WRITTEN STATEMENT OF DETECTIVE BILL POLLARD

EXECUTIVE SUMMARY

The demise of the Soviet empire and the opening of the borders to the West have kindled new incentives and opportunities for organized crime in the newly independent states of the Former Soviet Union (FSU). The explosive growth of organized crime in the FSU represents a significant threat to the United States. These syndicates are playing an increasing role in the global trafficking in illicit drugs and are exporting their operations and networks and collaborating with foreign criminal organizations. These developments pose a serious challenge to law enforcement agencies within the United States.

As Russian crime syndicates move westward and collaborate with foreign criminal syndicates, the predictable results occur -- increases in homicides, racketeering, major frauds, extortion and kidnappings. These crimes are occurring all too frequently within the Russian/Armenian ethnic communities.

The greater Los Angeles area is particularly impacted by the activities of Russian criminal organizations. This area has the second largest Russian population outside of Russia.

Not surprisingly, law enforcement's efforts to investigate these crimes are hampered by: a mistrust of the police within the Russian/Armenian community; an insufficient number of qualified interpreters; and fear of reprisal if information is provided to the police.

To better understand the magnitude of the problem of Russian organized crime (ROC) in 1996, it is necessary to understand the recent migration of criminals from the countries of the former Soviet Union (FSU). During the 1970's and 1980's, the FSU allowed only about 200,000 Soviet citizens to migrate to the United States. The majority were Russian-Jewish refugees. However, it is well recognized that the FSU used this opportunity to "encourage" migration of hardcore criminals. It is believed that many KGB agents also were part of the migration from the FSU. The emigre population settled primarily in the New York Brighton Beach area and secondarily in the Los Angeles area of California.

Between the 1989 Lautenberg Amendment and the mid-1990's (five years), immigration from the FSU has far surpassed the total of those immigrating the previous 20 years. A small percentage of those emigres have continued to be criminals who enter with false passports and fraudulent visas.

The Los Angeles Police Department began to identify and track a few associated criminal members of the FSU community in the early 1980's as preparations were being made to host the 1984 Olympic Games. Since the Olympics, the number of targeted ROC criminals has steadily increased. These groups have become increasingly violent in the pursuit of illicit gain.

While these groups predominately prey on those within their own ethnic community, their criminal enterprises have increasingly become more complex. Medical fraud and gas excise tax fraud are two areas that have been targeted by these criminal syndicates. These frauds are difficult to investigate and difficult to prosecute. Local law enforcement agencies lack the resources to properly investigate these crimes, yet these schemes cost the tax payer millions of dollars in lost revenue or in excess insurance premiums.

Law enforcement in the Los Angeles area has responded to the threat of Russian organized crime by exchanging investigative leads and general information in order to track their criminal pursuits. In 1991, detectives from the Los Angeles Police Department's Organized Crime Intelligence Division and the Los Angeles County Sheriff's Department organized a regional meeting of law enforcement professionals. The group of investigators became known as the Soviet Organized Crime Intelligence Team (SOCIT). The Southern California group, which meets monthly, has grown to include investigators state-wide, as well as federal law enforcement agents.

There are many obstacles facing law enforcement as they battle ROC. Communication links need to be improved within the state and national boundaries. Improved cooperation and communications between the United States and other victim countries should be actively explored. The problem is not solely a United States/FSU issue. Russian organized crime syndicates have increased alarmingly in the past five years. Their influence extends throughout Europe and North America. We are all becoming victims and we must work together. Unfortunately, responsibility for many of these issues is currently fragmented among different federal offices and bureaus. The United States will need to redefine its organizational responses to cope with the complex challenge arising from FSU crime groups.

INTRODUCTION

This document was prepared by the Los Angeles Police Department's Organized Crime Intelligence Division to be presented in conjunction with testimony before the United States Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, chaired by Senator William V. Roth, Jr. The purpose of this paper is to discuss the impact of Russian organized crime (ROC) on the Los Angeles, California, area and to provide specific examples of ROC criminal activity. It is important to include a limited history in order to better understand the development and continued growth of Russian organized crime syndicates which are of particular concern to the Los Angeles Police Department as well as other California law enforcement agencies.

HISTORY

The term Russian organized crime will be used to describe the various criminal groups whose members come from and/or have ties to the former Soviet Union (FSU). These republics include more than 150 ethnic backgrounds where approximately 120 languages and dialects are spoken with the Russian language being a common tie.

During the 1970's and 1980's, the FSU relaxed its immigration policy, allowing approximately 200,000 Soviet citizens to immigrate to the United States. The majority of these emigres were Russian-Jewish refugees. However, it is widely believed

that these emigres included some 2,000 professional criminals who had been released from FSU prisons. It is further believed that a number of former KGB agents also emigrated to the United States.

The largest concentration of these emigres settled in the Brighton Beach area of New York with the next highest concentration settling in the Los Angeles area of California.

In 1989, the Lautenberg Amendment was enacted which allowed up to 50,000 FSU emigres to enter the United States each year. This was followed by the Russian Parliament allowing its citizens to immigrate and travel freely. In 1991, the United States experienced a surge of emigres nearly equaling the period of 1981 throughout 1989. These emigres continued to primarily settle in New York followed by California.

In addition to the legal emigres, many others entered the United States on Non-Immigrant Visas and forged documents. Many emigres also misused the L-1 Visa for business or alleged business purposes to gain entry. Investigations revealed that shell businesses and, many times, businesses which were manipulated or charging significant fees, sent letters to the United States Embassy sponsoring individuals and requesting visas be issued. As the number of FSU emigres increased, so did the ROC problem.

The early development of ROC in the United States can be compared to that of the Italian La Cosa Nostra (LCN). As the Soviet emigres settled in concentrated areas due to family, ethnic and economic ties, the criminal elements preyed on their own. Typical crimes included extortion, theft, fraud and prostitution. As the crime groups grew, so did the sophistication of their crimes.

In the early 1980's, while conducting threat assessments for the upcoming 1984 Olympics, the Los Angeles Police Department began to investigate the presence of ROC. The majority of ROC groups in Los Angeles were generally considered to be loosely structured criminal networks often with extensive ties to other groups throughout the United States and the FSU. No complex structure was identified in Los Angeles. Intelligence information did indicate that prior to the murder of Evsei Agron, the East Coast godfather of the Odessa Mafia, in 1985, he had made several trips to Los Angeles to expand his influence. It is believed that he appointed a Los Angeles "Godfather" to resolve disputes among rival ROC groups.

By 1985, the Los Angeles Police Department had identified 53 known Soviet emigre crime group members living in the Los Angeles area and another 14 who visited and had ties to the area. These criminals were involved in murder, extortion, espionage, grand theft, counterfeiting, insurance fraud, medical fraud, arson, robberies, burglaries, receiving stolen property, tax fraud,

business takeovers, loan sharking, rape, assault with a deadly weapon, and money laundering.

The number of criminals connected with ROC has skyrocketed since the 1980's. The ROC groups being seen in Los Angeles today are more organized and have a broader spectrum of criminal activity than their predecessors. Investigations reveal that these crime groups are now involved in narcotic trafficking, indentured servitude and much more sophisticated financial crimes, medical and fuel tax fraud being the most common. The "Russian" criminal today may come from Russian, Ukraine, Bela-Russia, or any one of many other Commonwealth states. He has forged ties with crime groups from most ethnic backgrounds. These groups include Israeli, Hungarian, and the traditional Italian mafias.

RESPONSE TO THE THREAT

Law enforcement in the Los Angeles area is well aware of the serious threat posed by Russian/Armenian organized crime (ROC). Regionally, detectives from local, state and federal agencies have been responding for some time by exchanging investigative leads and general information on these criminals. In 1991, detectives from the Los Angeles Police Department's Organized Crime Intelligence Division (OCID), the Los Angeles Office of the Federal Bureau of Investigation, and the Los Angeles County Sheriff's Department, organized a regional meeting of law enforcement professionals. This group became known as Soviet Organized Crime Intelligence Team (SOCIT). The group began

meeting on a monthly basis and drew interested detectives from local, state and federal agencies. The California Department of Justice, Bureau of Investigation, has assigned an analyst to track ROC groups throughout California. Periodic intelligence bulletins enable all California law enforcement to keep track of the growing menace.

SELECTED CASES INVOLVING ROC

In 1983, Gersh Rachmeliuk and Yefim Sotsky, Russian organized crime loan sharks in Los Angeles, loaned \$50,000 to a Russian victim at a 30% interest rate. Eight years later (1991) the victim had repaid \$480,000 and still owed over \$120,000. When the suspects began threatening the victim and his family for repayment of the loan, the victim contacted the Los Angeles Police Department. The two suspects were arrested and subsequently convicted.

Medical insurance fraud is a billion dollar business for Russian organized crime. It involves an array of frauds ranging from staged auto accidents to false billing of insurance companies. In 1991, one of the largest of such cases was brought to a successful conclusion by federal, state and local agencies in Los Angeles. Two Russian emigre brothers, Michael and David Smushkevich, were responsible for a massive fraud scheme in which they used mobil medical laboratories to conduct unnecessary and often fraudulent medical tests on patients. Inflated or fictitious bills were sent to insurance companies resulting in

huge illegal fees being collected by the brothers. This fraud eventually spread to Illinois, Missouri and Florida. Authorities estimate the brothers reaped between \$50 and \$80 million in profits.

In 1992, Los Angeles County Sheriff's Office deputies responded to a citizen's call concerning a car left running in a private driveway. When the deputies knocked on the door of the house in question, they were met by Sergi Ivanov, a Russian immigrant who was covered in blood. Upon checking the house for the source of the blood, they found two other Russian immigrants, Andrey Keznetsov and Vladimir Litvinenko, murdered, execution-style. They also found a second Russian suspect, Alexander Nikolaev, pretending to be dead. The suspects were in the process of severing the tips of the victims' fingers in an effort to mask the identities of the victims. The suspects had also "gutted" the victims to recover the bullets which could be used against them as evidence.

When questioned, the suspects admitted to the murders but claimed they were victims themselves. They explained that the business of the two murder victims was to import Russian immigrants illegally and have them commit frauds with checks and credit cards. The two victims, according to Nikolaev and Ivanov, planned to hold their passports until sufficient merchandise was accumulated through the frauds to repay the cost of their illegal immigration. The arrestees became tired of working for the deceased and committed the murder.

In 1994, Akop Bagdasaryan, Setrak Nalbandian, Arsen Oganessian, Karen Oganessian and Aram Tsaturyan, members of an Armenian organized crime group, were convicted of kidnap/extortion in Los Angeles. They were convicted of kidnapping victims within their own Armenian community and threatening to harm them and their families unless money was paid. It is believed this group terrorized the Armenian community for 13 years.

According to the California Department of Justice, fuel tax fraud is probably the most lucrative criminal activity in the State. It is estimated that the State of California is losing revenue from excise fuel tax at the rate of a million dollars a day. Half of the money lost is attributed to Russian organized crime groups operating primarily in the Los Angeles area. These groups are able to "pocket" up to 40 cents on the dollar from the tax owed to the state and federal governments.

These schemes are accomplished by setting up shell companies and using fraudulent IRS forms. These groups also rig fuel pumps, extend fuel by blending additives such as transmix or alcohol and sell lower grade fuel as premium.

A federal, state and local task force recently eliminated a major fuel fraud ring by arresting 25 individuals for various RICO violations. The ringleader was identified as the "godfather" of the Armenian Mafia in Los Angeles. The estimated value of criminal proceeds seized during this investigation was over 16 million dollars.

This group sold fuel below the level of legitimate retailers forcing others out of business or requiring them to join their "scam" in order to survive. Laws have recently been enacted in California to collect the gas tax at the terminal level in an effort to close this loophole. The law appears to be making an impact, however, it is suspected that the groups are moving out-of-state to get their fuel.

OBSTACLES FACING LAW ENFORCEMENT

Russian organized crime presents law enforcement with the formidable task of controlling its rapid expansion and proliferation. There are many innate difficulties in the investigation of organized crime and, more specifically, ROC. Within the Russian community there is a significant and solidly based fear of organized crime. Yet, from their experiences in the "old country," the community has become accustomed to dealing with the "shadow economy." Living in relatively small ethnic communities, residents have no place to hide. Threats from street thugs claiming connection to well-known "mafia" members are taken seriously. Commonly, threats are made against elderly relatives in the "old country," effectively eliminating any thoughts of fleeing or turning to the police for help. Having no control of matters in the "old country," local immigrants feel helpless.

Law enforcement must work to lift this veil of fear-induced silence. But, to be effective, law enforcement must also address

the distrust of authority, which is rooted in their experiences in the FSU. Without doing so, it will become increasingly difficult to identify and target predators who are active in their neighborhoods.

Once identified, ROC targets often frustrate law enforcement's efforts by their transient nature. All too frequently, when law enforcement begins to focus on a crime group, the hierarchy moves its operation to another city.

Open communication among agencies is paramount in establishing credible means of tracking and identifying these highly mobile criminal organizations. The exchange of information must not only occur among local, state and federal agencies, but it is increasingly important to coordinate the information flow internationally. Russian crime groups in the Los Angeles area commonly interact with Russian groups located in Canada and the former Soviet Union. It would be invaluable for local law enforcement agencies to have a reliable source of identification and criminal record information in the countries of the FSU. Persons entering our borders should be positively identified to facilitate their accurate identification if they are arrested.

Forged and fictitious passports are all too common. One of the uncontrollable aspects of ROC activity is the identification of "Tyazhiki" or shadow people who are undocumented residents of the Commonwealth of Independent States (CIS) who are hired as enforcers to travel throughout the United States and Europe to

commit violent acts, including murder. Law enforcement's efforts to identify these individuals are often frustrated because no record exists of their entering the country.

CONSIDERATIONS AND RECOMMENDATIONS

The international nature of the Russian criminal network present a unique problem to local law enforcement agencies. By their nature, these networks are ethnocentric and their activities cross many jurisdictional boundaries. Local law enforcement agencies lack the resources to effectively investigate these groups. Effective partnerships have begun to be established with federal agencies, but these agencies often require a significant threat before committing limited federal resources. It is vitally important that a coordinated and concerted effort be made to identify the threat to the United States posed by Russian organized crime groups, and to work cooperatively to investigate and prosecute those involved.

On the local level, community-based policing is the vehicle for educating the ethnic Russian community in the standards and expectations of living in our free and prosperous society. Open lines of communications must be established between the police and the community. Trust must be developed. At the same time, adequate resources must be expended to publicly instill confidence that criminals will be treated as criminals and not be dealt with in underground cooperation, as in the FSU. To do this

effectively, it is necessary to actively investigate and incarcerate street level, as well as white collar criminals.

On a regional basis, local, state and federal agencies must actively pursue open communication. Effective community, police and government planning must be undertaken now in order to stop the increase in the criminal activities of these Russian crime groups.

Task force operations involving local, state and federal agencies are an effective means to combat the growing menace of Russian organized crime groups. However, the lack of local resources may preclude participation. It is recommended that a means be found to augment local law enforcement budgets when personnel participate in a task force dealing with cross-jurisdictional crimes.

To encourage interagency cooperation and information flow, a national data base needs to be established which could provide information to law enforcement agencies regarding parallel investigations. The system should be designed as a pointer system only. The primary investigating agencies would be notified of inquiries regarding subjects involved in their investigation. No immediate information would be provided to the inquirer. The detective/agent who entered the original information would be notified and, if appropriate, they would have the option of contacting the inquirer.

The Immigration and Naturalization Service must be empowered to expedite the deportation of repeat criminal offenders. One Russian source said, "What are you going to do to us in this country after we have encountered the KGB and Gulag? The only thing I fear is deportation, and you won't do it." The unmanageable deportation appeal process needs to be expedited.

In general, the United States needs a new arsenal of organizational responses to cope with the complex challenges arising from Russian organized crime groups. All levels of government need to be alerted to the growing problem of Russian organized crime within our borders as well as the international linkages among organized crime, drug trafficking and terrorism.

STATEMENT OF
ANONYMOUS UNDERCOVER POLICE OFFICER

SENATORS, I WELCOME THE OPPORTUNITY TO APPEAR BEFORE YOUR DISTINGUISHED COMMITTEE.

I WAS BORN AND RAISED IN RUSSIA. I EMIGRATED FROM RUSSIA TO THE UNITED STATES OF AMERICA IN THE 1970'S.

I HAVE BEEN A LAW ENFORCEMENT OFFICER FOR MORE THAN TEN YEARS. I HAVE SERVED IN DIFFERENT CAPACITIES, UNIFORMED PATROL, HOMICIDE DETECTIVE, AND NARCOTICS DETECTIVE. DURING THE PAST TWO YEARS, I HAVE BEEN INVOLVED IN NUMEROUS RUSSIAN ORGANIZED CRIME INVESTIGATIONS.

DUE TO THE FACT THAT I AM INVOLVED IN A NUMBER OF EXTREMELY SENSITIVE INVESTIGATIONS, I AM TESTIFYING ANONYMOUSLY IN ORDER NOT TO JEOPARDIZE THESE CASES OR THE SAFETY OF OTHERS.

AS I SAID EARLIER, I GREW UP IN THE FORMER SOVIET UNION. I WAS RAISED UNDER THE COMMUNIST SYSTEM AND I BELIEVE THAT I KNOW THE THINKING OF THE PEOPLE WHO WERE BROUGHT UP IN THAT SYSTEM.

I'M VERY ACTIVE IN THE RUSSIAN EMIGRE COMMUNITY IN THE CITY IN WHICH I LIVE. I ATTEND MOST OF THE GATHERINGS OF THE EMIGRES AND CONTINUE TO BE VERY MUCH IN TOUCH WITH THE RUSSIAN EMIGRES AND THEIR CULTURE. I RECEIVE AND READ MOST OF THE LITERATURE THAT IS PUBLISHED IN THE RUSSIAN LANGUAGE IN BOTH THE FORMER SOVIET UNION AS WELL AS HERE IN THE UNITED STATES.

NOW I WOULD LIKE TO TOUCH ON THE SUBJECT OF THE DIFFERENCE BETWEEN THE CULTURES IN THE REPUBLICS OF THE FORMER SOVIET UNION AND THE UNITED STATES.

GROWING UP IN RUSSIA, PEOPLE LEARN THE FOLLOWING FROM THEIR PARENTS, GRANDPARENTS, AND THEIR SURROUNDINGS:

IN ORDER TO SURVIVE, THE LESSON IS "SURVIVAL OF THE FITTEST."

BY THIS I MEAN THAT YOU MUST CONSTANTLY STRUGGLE AND MANIPULATE THE SYSTEM; THAT YOU HAVE TO ADJUST AND DO WHATEVER IS NECESSARY TO "GET AHEAD." AND THE ENDS JUSTIFY THE MEANS.

DURING THE COMMUNIST REGIME, FOR MANY PEOPLE, THE MORAL VALUES ACCEPTED IN A FREE SOCIETY WERE "DESTROYED," MAYBE WITH A FEW EXCEPTIONS.

RUSSIAN PEOPLE GREW UP WITH THE UNDERSTANDING THAT STEALING SOMETHING FROM THEIR PLACE OF EMPLOYMENT IS NOT A CRIME. MAYBE BECAUSE ONE WAS NOT STEALING FROM A FRIEND BUT RATHER FROM A "SYSTEM."

THEY ALSO GREW UP WITH THE UNDERSTANDING THAT THE RULES WERE MADE TO BE BENT OR BYPASSED.

THAT MENTALITY, PHILOSOPHY AND UPBRINGING EXPLAINS WHY SOME OF THE RUSSIAN EMIGRES, (MANY OF WHOM WERE EDUCATED, FAMILY PEOPLE) GOT INVOLVED IN WHITE COLLAR-TYPE CRIMINAL ACTIVITY HERE IN THE UNITED STATES.

PRIOR TO THE DISINTEGRATION OF THE FORMER SOVIET UNION OR "PERESTROIKA," WE DID HAVE A NUMBER OF VIOLENT RUSSIAN CRIMINALS WHO EMIGRATED TO THE UNITED STATES BUT THESE WERE VERY SMALL IN NUMBER.

UP UNTIL "PERESTROIKA," THE METHOD BY WHICH "SUCCESS" WAS JUDGED IN THE USSR WAS THE LEVEL OF A PERSON'S EDUCATION. DOCTORS, ENGINEERS, TEACHERS, SCIENTISTS, WERE ALL ACCORDED A SOMEWHAT HIGHER STATUS IN SOCIETY. WEALTH WAS NOT A FACTOR AS A WORKER IN A FACTORY WAS MAKING AS MUCH MONEY AS A DOCTOR DID. AND THE PEOPLE WHO DID MAKE MONEY IN THE UNDERGROUND ECONOMY OR BLACK MARKET OPERATIONS WERE CONCEALING THEIR WEALTH.

AFTER "PERESTROIKA," THIS SITUATION WAS REVERSED AND THE WEALTHY PEOPLE ROSE TO THE TOP OF SOCIETY.

WITH "PERESTROIKA," ORGANIZED CRIME FLOURISHED IN RUSSIA.

NOW, I WOULD LIKE TO EXPLAIN HOW THESE CRIMINAL GROUPS "EMERGED." THERE WERE A NUMBER OF YOUNG PEOPLE WHO WERE ENERGETIC BUT IMPATIENT OR UNABLE TO BUILD UP THEIR OWN BUSINESS OVER A PERIOD OF TIME. THESE PEOPLE STARTED TO FORM CRIMINAL GROUPS BASED ON THEIR AFFILIATIONS WITH NEIGHBORHOODS OR CITIES. THE GROUPS WERE LED BY EITHER PROFESSIONAL CRIMINALS OR PEOPLE WITH LEADERSHIP ABILITIES AND SIMILIAR INTERESTS. THESE GROUPS STARTED TO "PREY" ON THE NEW RUSSIAN BUSINESS SOCIETY. THEY CONTINUED TO GROW AND SOME OF THE CRIMINAL ORGANIZATIONS ARE NOW SEVERAL THOUSAND MEMBERS STRONG.

THEY WOULD EXTORT MONEY, KIDNAP PEOPLE FOR RANSOM, AND ORGANIZED COLLECTION AGENCIES WHICH USED VERY UNORTHODOX METHODS.

ANOTHER NEW INDUSTRY BEGAN TO EMERGE: THAT OF "MURDER FOR HIRE." BUSINESS PEOPLE WOULD USE THESE HIRED KILLERS TO WIPE OUT THEIR COMPETITION AND THEREBY GIVE A LESSON TO OTHERS, "DON'T FOOL AROUND WITH MY COMPANY OR THE AREA THAT I'M OPERATING IN."

INFORMATION HAS BEEN DEVELOPED THAT MANY OF THESE MURDERS WERE COMMITTED IN RUSSIA BY PEOPLE WITH EXTENSIVE MILITARY BACKGROUNDS.

THESE ACTIONS FORCED THE BUSINESS PEOPLE TO EACH BEGIN LOOKING FOR (QUOTE) "PROTECTION" (END-QUOTE). AND, A NEW AND VERY PROFITABLE BUSINESS CALLED "KRISHA," MEANING "ROOF" IN ENGLISH, CAME INTO BEING.

VERY FEW BUSINESSES IN RUSSIA COULD SURVIVE WITHOUT THIS PROTECTION. UP TO FIFTY PERCENT OF THEIR INCOME IS DIVERTED BY THE LEGITIMATE BUSINESSES TO CRIMINAL ORGANIZATIONS IN RETURN FOR THIS PROTECTION.

WITH THE NEW ABILITY TO TRAVEL FREELY, WE SEE RUSSIAN CRIMINAL ORGANIZATIONS ESTABLISHING THEIR ROOTS, THEIR TIES, HERE IN THE UNITED STATES OF AMERICA.

ANOTHER IMPORTANT POINT IS THAT DURING THE COMMUNIST REGIME, THERE WAS, IN EFFECT, A SYSTEM WHERE A PRIVILEGED CLASS OF THE COMMUNIST GOVERNMENT OFFICIALS WAS DEVELOPED. THERE WAS ALMOST A "CLOSED SOCIETY" OF THE COMMUNIST BUREAUCRACY AND IT WAS NEARLY IMPOSSIBLE TO BECOME A PART OF IT UNLESS ONE WAS WELL CONNECTED.

HOWEVER, WITH THE DISMANTLING OF THE SOVIET UNION, THESE PEOPLE REMAINED IN OFFICE, BUT NO LONGER UNDER THE COMMUNIST SYSTEM WHICH GUARANTEED THEM A BETTER LIFE. THEY BEGAN TO SEE THAT MONEY IS THE CRITERIA ON WHICH PEOPLE WERE JUDGED. YET, THEY HAD THE POWER TO ISSUE LICENSES, PERMITS, VALUABLE GOVERNMENT CONTRACTS, SET CUSTOMS DUTIES ON GOODS IMPORTED INTO THE FORMER SOVIET UNION, OR SET STANDARDS FOR THE EXPORT OF RUSSIA'S VALUABLE COMMODITIES, FOR EXAMPLE, ITS NATURAL RESOURCES.

MANY OF THESE GOVERNMENT OFFICIALS BEGAN TO TAKE ADVANTAGE OF THEIR POSITIONS DUE TO THIS PERCEPTION. THEY OR MEMBERS OF THEIR FAMILIES BECAME (QUOTE) "PARTNERS"(ENDQUOTE) IN BUSINESS ENTERPRISES OR, IN EFFECT, "SOLD" THEIR POWER AND AUTHORITY.

INFORMATION DEVELOPED SHOWS THAT MANY RUSSIAN GOVERNMENT OFFICIALS, WORKING ON A MODEST SALARY, AMASSED VAST SUMS IN THIS FASHION. THESE SAME CORRUPT OFFICIALS PUT THE PROFITS FROM THIS ACTIVITY IN BANK ACCOUNTS ALL OVER THE WORLD AND PURCHASE REAL ESTATE OR OTHER PROPERTY IN VARIOUS COUNTRIES INCLUDING THE UNITED STATES OF AMERICA.

IN ADDITION, MANY OF THE FORMER INTELLIGENCE, LAW ENFORCEMENT, AGENTS AND LEADERS PERCEIVED THAT THEY WERE "ON THE BOTTOM" SO TO SPEAK, OF THE NEW AND EMERGING WEALTHY RUSSIAN SOCIETY. THEIR SERVICES AND KNOWLEDGE BECAME A VALUABLE COMMODITY TO THE EMERGING CRIMINAL GROUPS.

IN SPEAKING WITH A NUMBER OF SOURCES OF INFORMATION OVER THE PAST COUPLE OF YEARS, I HAVE LEARNED THAT INDIVIDUALS AND BUSINESSES AFFILIATED WITH THE FORMER SOVIET INTELLIGENCE ORGANIZATIONS ARE BEING USED BY THE RUSSIAN ORGANIZED CRIME GROUPS ALL OVER THE WORLD, INCLUDING THE UNITED STATES. WHILE I CANNOT GO INTO THE SPECIFICS OF THIS, I CAN SAY THAT THE INFORMATION DEVELOPED SHOWS THAT THE FORMER INTELLIGENCE OFFICERS ARE WORKING IN LEAGUE WITH RUSSIAN ORGANIZED CRIME AND MAKING HUGE PROFITS IN THE PROCESS.

AMONG THE STRONGEST RUSSIAN CRIMINAL ORGANIZATIONS WHICH ARE OPERATING TODAY ARE THE FOLLOWING GROUPS:

1. IZMAILOVSKAYA ORGANIZATION. THIS IS BASED IN MOSCOW AND IS SEVERAL THOUSAND MEMBERS STRONG. ITS LEADERS RESIDE IN RUSSIA AND ISRAEL. THE GROUP USES QUASI-MILITARY RANKS AND IS VERY STRICT IN DISCIPLINING ITS MEMBERS. IT IS INVOLVED EXTENSIVELY IN MURDER-FOR-HIRE, EXTORTIONS AND INFILTRATION OF LEGITIMATE BUSINESSES.

2. SOLNTSEVSKAYA ORGANIZATION. THIS IS BASED IN MOSCOW. ITS LEADERS RESIDE IN RUSSIA, CENTRAL EUROPE AND ISRAEL. THE GROUP IS ACTIVE IN EXTORTIONS, INFILTRATION OF LEGITIMATE BUSINESSES, COUNTERFEITING AND THE TRAFFICKING IN ILLEGAL DRUGS.

3. PODOLSKAYA ORGANIZATION. THIS IS BASED IN MOSCOW. ITS LEADERS RESIDE IN RUSSIA. THE GROUP IS ACTIVE IN EXTORTIONS, INFILTRATION OF LEGITIMATE BUSINESS AND THE TRAFFICKING IN ILLEGAL DRUGS.

OTHER ORGANIZATIONS INCLUDE:

KUNTSEVSKAYA	BALASHIKHIN (BALASHIKHINSKAYA)
KURGANSKAYA	BAUMANSKAYA
MAZUTKINSKAYA	CHECHEN CRIMINAL ORGANIZATION (SEVERAL BRIGADES)
PUSHKINSKAYA	DAGESTANI
TAGANSKAYA	DOLGOPRUDENSKAYA
TAMBOVSKAYA	KAZANSKAYA
VORKUTA	

UNTIL LAST YEAR, THERE WAS A RUSSIAN CRIMINAL ORGANIZATION OPERATING IN THE NEW YORK AREA WHICH WAS HEADED BY AN INDIVIDUAL WITH AN EXTENSIVE CRIMINAL BACKGROUND IN RUSSIA. THIS PARTICULAR ORGANIZATION HAD MEMBERS OR ASSOCIATES NOT ONLY IN NEW YORK CITY BUT STRETCHED ACROSS THE UNITED STATES. THE ORGANIZATION WAS CRIPPLED DUE TO THE RECENT ARRESTS OF ITS LEADER AND SEVERAL MEMBERS ON RACKETEERING CHARGES.

WE HAVE BEEN ABLE TO LINK SEVERAL MURDERS WHICH HAVE OCCURRED IN THE UNITED STATES TO RUSSIAN ORGANIZED CRIME GROUPS.

DURING THE 1980'S AND 1990'S, THE UNITED STATES OF AMERICA LOST BILLIONS OF DOLLARS IN TAX REVENUE WHEN RUSSIAN CRIMINALS ORGANIZED A FUEL TAX SCAM. SEVERAL CASES HAVE BEEN SUCCESSFULLY PROSECUTED IN THE U.S., IN SUCH CITIES AS NEWARK, PHILADELPHIA, ATLANTA AND NEW YORK. THERE ARE OTHERS UNDER INDICTMENT AT THIS TIME IN NEW JERSEY AND LOS ANGELES.

THIS CASE ALSO SHOWED US THAT RUSSIAN CRIMINALS WERE OPEN TO COOPERATION WITH OTHER CRIMINAL GROUPS.

ONE TYPE OF GROUP WITH WHOM THE RUSSIAN ORGANIZED CRIME FIGURES HAVE WORKED ARE THE ITALIAN-AMERICAN ORGANIZED CRIME "FAMILIES" OPERATING IN THE NEW YORK-NEW JERSEY AREA. IN THIS PARTICULAR INSTANCE, THE RUSSIAN CRIMINALS PAID THE ITALIAN-AMERICAN CRIMINAL GROUPS A "TAX" AMOUNTING TO A CERTAIN PERCENTAGE OF THEIR PROFITS, IN RETURN FOR THE ABILITY TO OPERATE IN THE AREAS UNDER THEIR INFLUENCE OR CONTROL.

SINCE THAT TIME, WE DEVELOPED INFORMATION ABOUT CONTINUING COOPERATION OF RUSSIAN ORGANIZED CRIME FIGURES WITH ITALIAN-AMERICAN CRIMINAL GROUPS.

WE ALSO DEVELOPED INFORMATION ABOUT INCREASING COOPERATION BETWEEN RUSSIAN ORGANIZED CRIME AND COLOMBIAN DRUG CARTELS. THE RUSSIAN ORGANIZED CRIME GROUPS ARE BELIEVED TO BE HEAVILY INVOLVED IN THE LAUNDERING OF THE PROFITS OF THESE COLOMBIAN DRUG CARTELS. THEY HAVE ALSO ESTABLISHED A CONTINUOUS FLOW OF COCAINE FROM COLOMBIA TO EASTERN EUROPE AND RUSSIA. IT HAS EVEN BEEN RECENTLY REPORTED IN NEWSPAPERS THAT DRUG DEALERS IN COLOMBIA ARE USING FORMER SOVIET MILITARY TRANSPORT AIRCRAFT TO MOVE QUANTITIES OF COCAINE.

TO DESCRIBE A TYPICAL ACTIVITY OF RUSSIAN ORGANIZED CRIME, I CAN BRING THE FOLLOWING EXAMPLE:

A HARDWORKING RUSSIAN BUSINESSMAN OPERATING IN THE HEAVILY POPULATED RUSSIAN AREA OF A MAJOR CITY IS VISITED BY SEVERAL MALES. THEY TELL THE BUSINESSMAN THAT EITHER FOR A CERTAIN PERCENTAGE OF HIS BUSINESS OR REGULAR PAYMENTS, THEY WILL "PROTECT" HIS ESTABLISHMENT.

IF THE BUSINESSMAN REPLIES THAT HE DOES NOT FEEL THAT HE NEEDS THAT PROTECTION, IN THE NEAR FUTURE, STRANGE THINGS WILL HAPPEN TO HIS FAMILY OR HIMSELF. ROBBERIES MAY TAKE PLACE ^{AT} ~~OF~~ HIS ESTABLISHMENT. ACTS OF VANDALISM WILL OCCUR. THREATENING PHONE CALLS WILL BE RECEIVED AND/OR VIOLENT ACTS AGAINST HIM OR MEMBERS OF HIS FAMILY WILL TAKE PLACE.

THE SAME PEOPLE WILL VISIT THE BUSINESSMAN AGAIN, AND, NOW CONVINCED THAT HE DOES NEED PROTECTION, THE BUSINESSMAN WILL START PAYING.

MANY OF THE CASES OF WHICH I HAVE KNOWLEDGE OR HAVE BEEN PERSONALLY INVOLVED, ARE CURRENTLY UNDER ACTIVE INVESTIGATION, AND THEREFORE I AM NOT DESCRIBING THESE OR COMMENTING FURTHER.

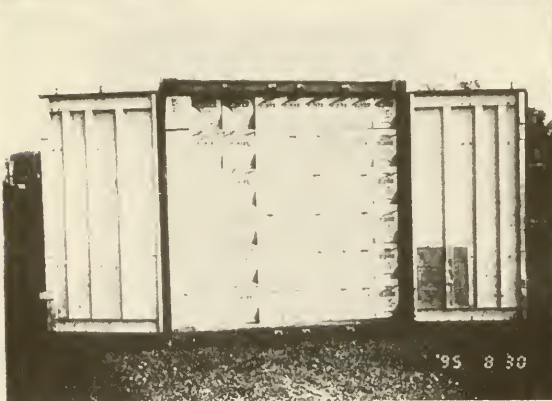
SENATORS, I HAVE BEEN ASKED BY YOUR STAFF WHETHER I HAVE ANY ADVICE FOR THE COMMITTEE ON HOW TO COMBAT RUSSIAN ORGANIZED CRIME. I WOULD LIKE TO MAKE A FEW SUGGESTIONS THAT WOULD COME NOT ONLY FROM ME BUT FROM LAW ENFORCEMENT PERSONNEL WITH WHOM I AM WORKING ON FEDERAL, STATE AND LOCAL LEVELS.

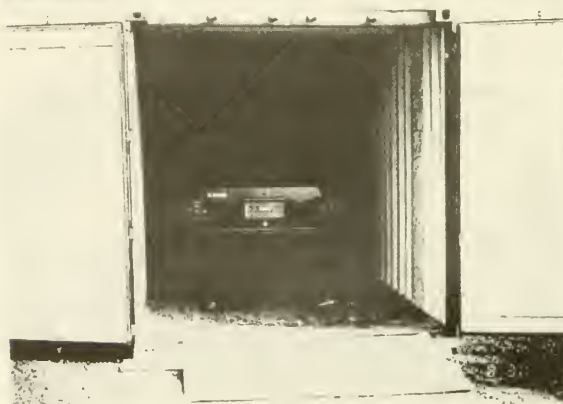
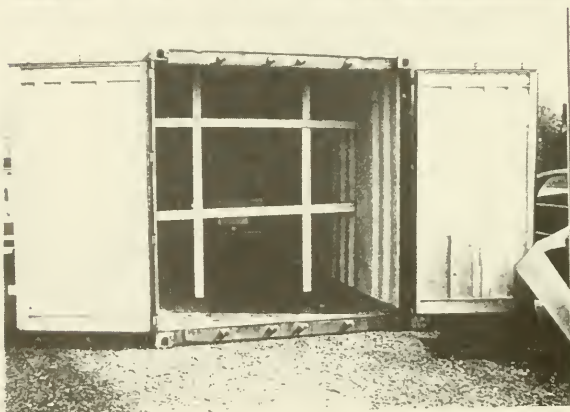
FORMAL TASK FORCES SHOULD BE ESTABLISHED IN MAJOR METROPOLITAN AREAS, CONSISTING OF FEDERAL, STATE AND LOCAL OFFICERS. WHAT THESE TASK FORCES COULD DO IS ACTIVELY GATHER INFORMATION ABOUT RUSSIAN ORGANIZED CRIME ACTIVITY IN THEIR CITIES, AND CONDUCT INVESTIGATIONS AGAINST THESE SUBJECTS. THE TASK FORCES SHOULD ESTABLISH LIAISON CONTACTS WITH LAW ENFORCEMENT AGENCIES THROUGHOUT THE WORLD, SINCE RUSSIAN ORGANIZED CRIME GROUPS OPERATE ON A GLOBAL SCALE.

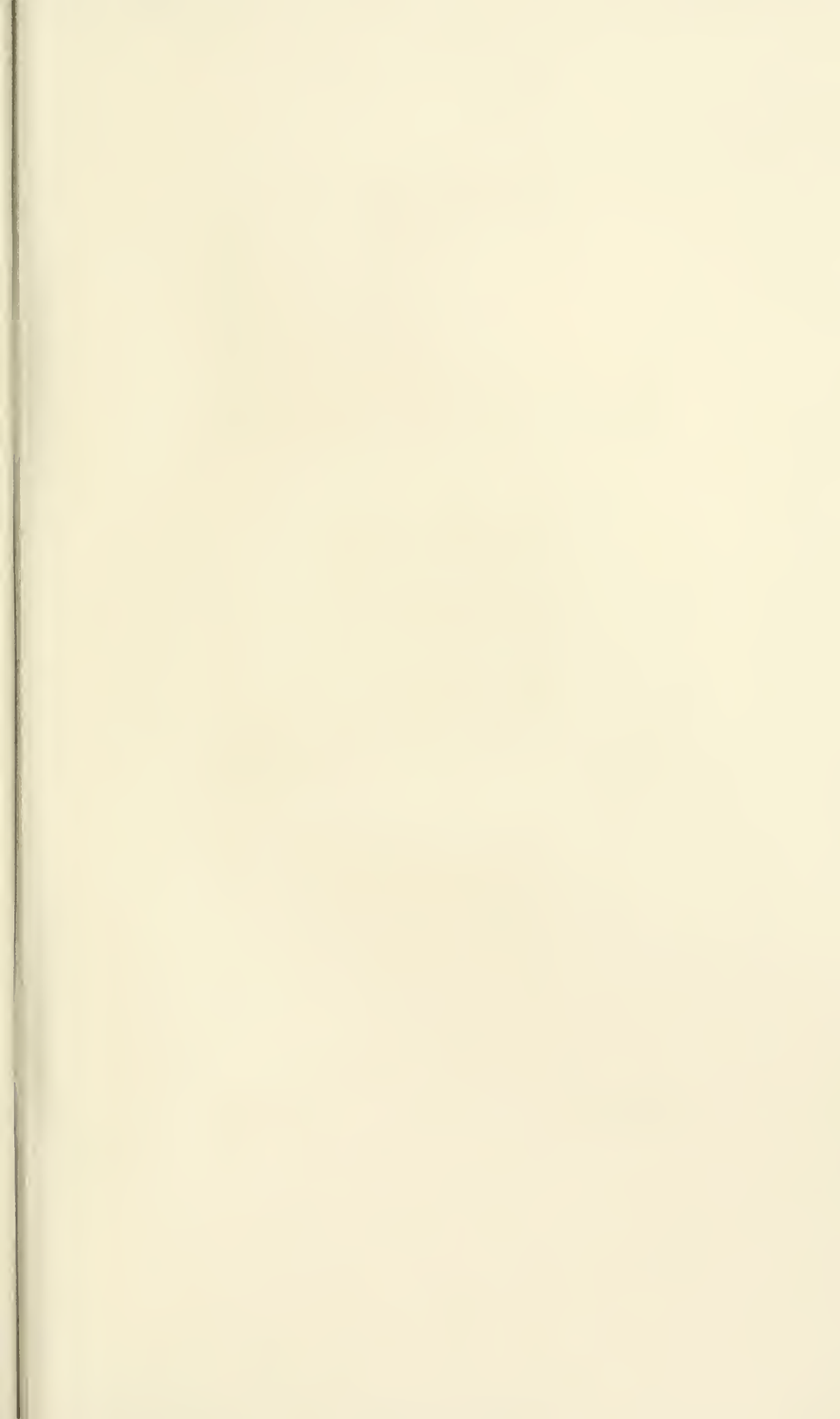
ONE OF THE MOST GLARING GAPS IN THE FIGHT AGAINST RUSSIAN ORGANIZED CRIME IS THE LACK OF AN EXTRADITION TREATY BETWEEN THE UNITED STATES OF AMERICA AND THE FORMER SOVIET REPUBLICS. THIS HAS ENABLED MANY RUSSIAN CRIMINALS, ASSOCIATED WITH ORGANIZED CRIME AND SOUGHT AS FUGITIVES BY RUSSIAN AUTHORITIES, TO SEEK REFUGE IN THE UNITED STATES. BY THE SAME TOKEN, RUSSIAN CRIMINALS WHO HAVE BEEN COMMITTING CRIMES IN THE UNITED STATES HAVE SUBSEQUENTLY LEFT FOR RUSSIA AND FOUND SAFE HAVEN THERE.

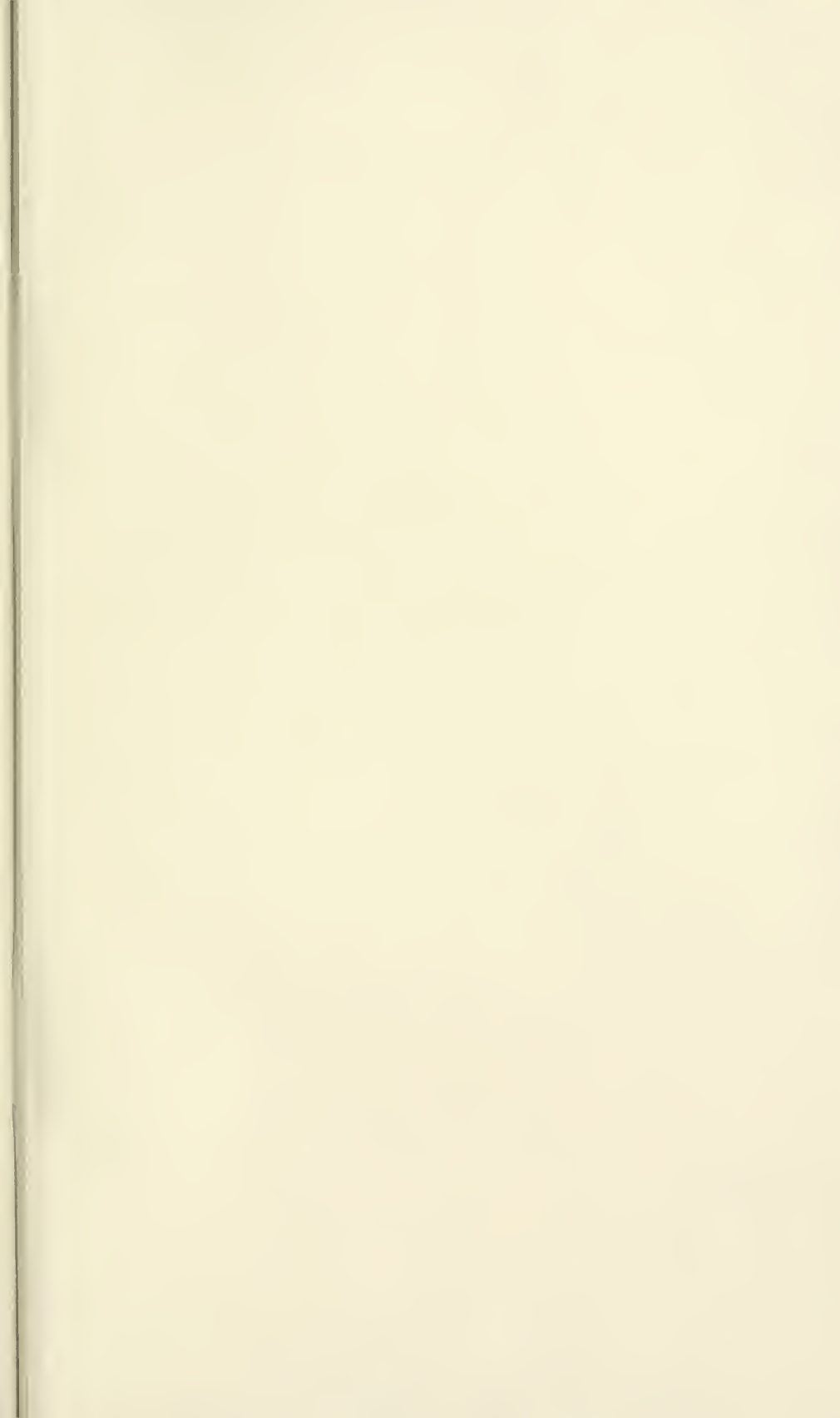
WHAT COULD BE ACCOMPLISHED BY ADDRESSING THESE MATTERS, HOWEVER, IS A "SLOWING DOWN," BUT NOT A COMPLETE HALT, TO THE GROWING PROBLEM OF RUSSIAN ORGANIZED CRIME IN THE UNITED STATES OF AMERICA.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOUR DISTINGUISHED COMMITTEE.





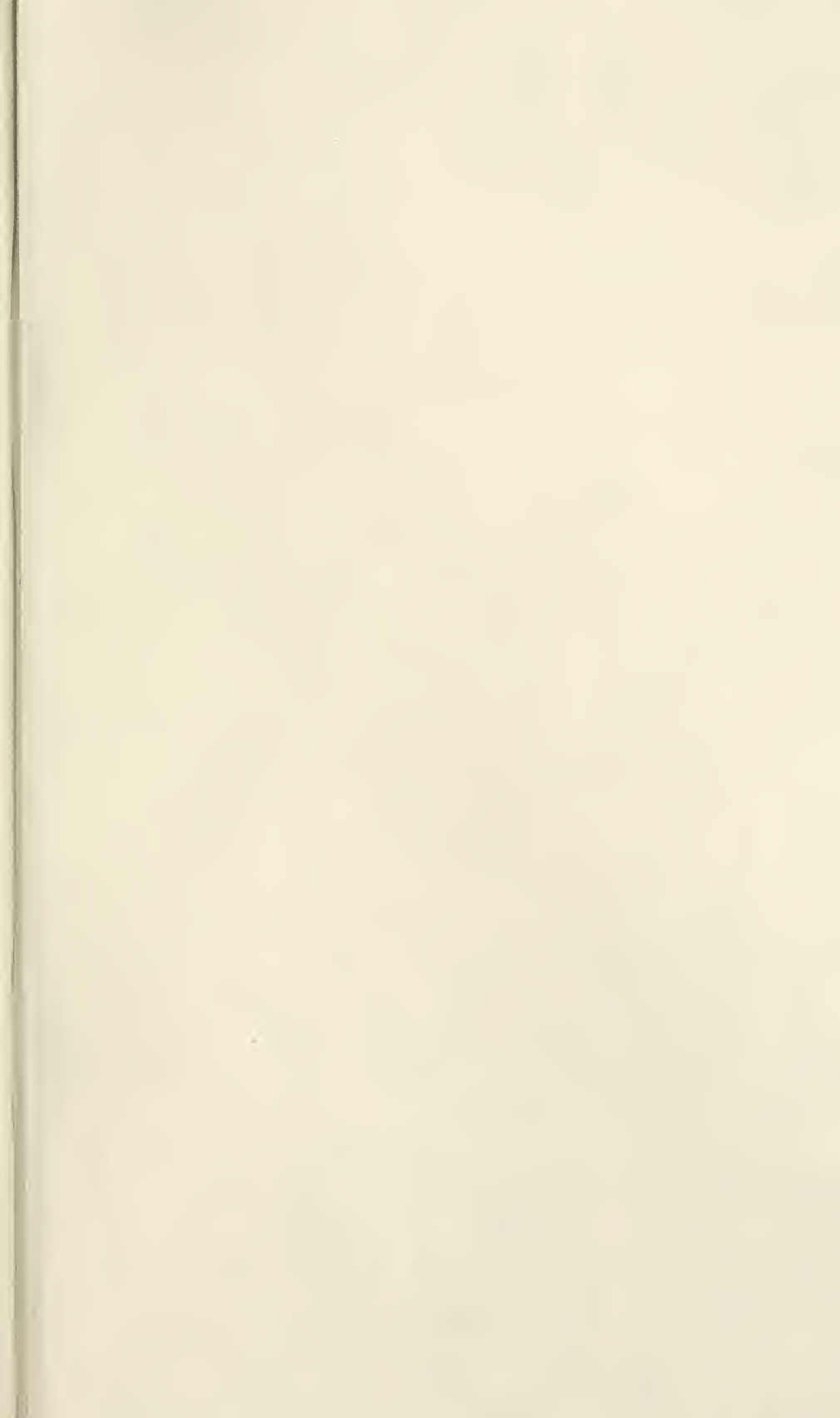




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