

# **IMF free-traders turn E. Europe into smuggler's paradise**

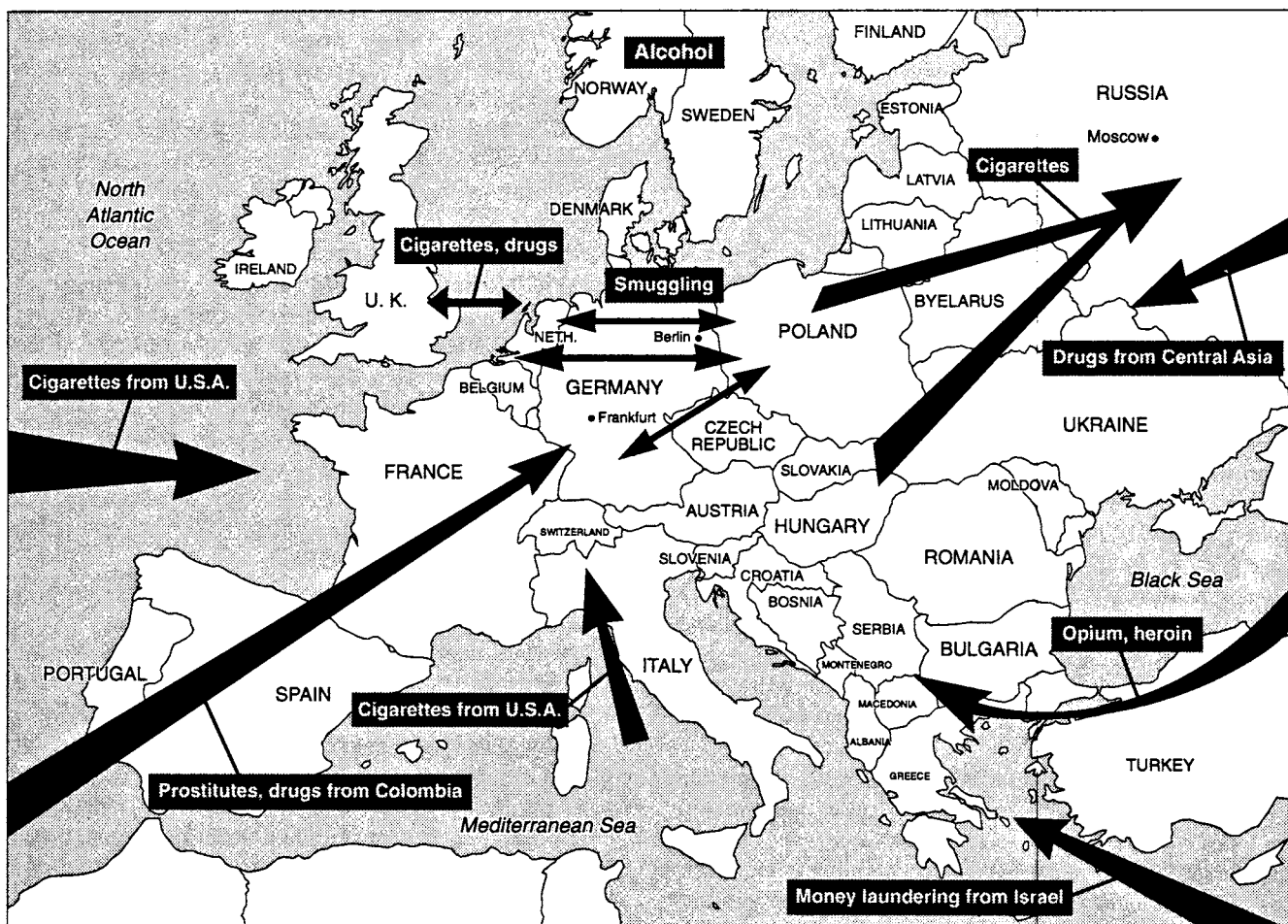
by Roger Moore

On Sept. 19, 1989, then CIA head William Webster gave a speech to the Los Angeles World Affairs Council on the reorientation of CIA strategic objectives. "Our political and military allies," he stressed, "are also our economic competitors." He said that the CIA's espionage activity would be directed in large part toward countering this alleged threat. Webster was referring especially to Germany, and its potential to lead western Europe into an economic relationship with the East based on development of infrastructure and the productive sectors of the economy. On Nov. 30, 1989, Deutsche Bank chairman Alfred Herrhausen, architect of a nascent productive development policy for Poland and the rest of the changing East, was assassinated. The Anglo-American architects of the Webster Doctrine could not have been more pleased.

Following the collapse of communism, the United States and Great Britain used the credit embargo power of the International Monetary Fund (IMF) to force disastrous "shock therapy" policies on eastern Europe and the countries of the former Soviet Union. Over the two and a half years since the formation of the German currency union in July 1990, the preexisting Comecon trade relations have been ripped apart, with consequent rises in unemployment and shrinking industrial production.

The goal of this policy, the geopolitical dictate to prevent a continental Eurasian economic development zone, also relies for its implementation upon the black economy of organized crime, which has lived in symbiosis with Anglo-American financial interests for decades. In the absence of real economic assistance, a coordinated palette of criminal capabilities and products, from money laundering to alcohol, cigarette, and drug smuggling, was fostered to create a black, "free market" economy to fill the vacuum. Instead of productive credits and investments, hot money, along with a large component of money laundered from criminal elements, was sent in to secure real assets, in the form of privatized state-owned concerns and real estate. Under the principles of free trade "Manches-

## East-West black market routes in Europe



ter capitalism,” thousands of import- and export-related companies were created in eastern Europe and the Community of Independent States (CIS), usually linking western partners with elements of the communist *nomenklatura*, to flood the East with western consumer products.

The much discussed theme of organized crime in the East, the so-called “Russian” mafia, too often concentrates on the ethnically diverse street-level thugs who handle the dirty retail work in criminal enterprises, and fails to see the infrastructure, protected cash flow, and planning which permit the retail “business” to flourish. This would be the equivalent of documenting the various ethnic groups involved in the Asian heroin traffic and omitting that this market is the conscious creation of the nineteenth-century British imperial geopolitical expansion known as the Opium Wars against China. The British creators of this market to this day play a controlling function through the role of the Crown Colony of Hong Kong, which is the financial center for the Golden Triangle heroin trade.

It is perhaps no accident that Theodore Shackley, former

deputy director of operations for the CIA, who cut his teeth setting up a heroin trafficking operation that was used to finance covert activities in Southeast Asia during the Vietnam War, is intimately involved in “consulting” in eastern Europe. At the 1990 convention in the United States of the Association of Former Intelligence Officers (AFIO), Shackley gave a speech emphasizing that U.S. financial involvement in central Europe was important, because Germany cannot be allowed to dominate the region. Since the United States has consciously inhibited serious aid, as frequent protests from Moscow and eastern European countries show, what exactly is the U.S. “financial involvement”?

### ‘Free trade’ and political corruption

One of the most important aspects of this policy is not so much the illegal cash flow per se, but the buyout and corruption of political assets. Why would Russia and other CIS states consciously pursue a policy to flood themselves with western-produced cigarettes and alcohol, as has been the case since 1990-91? The U.S. company Philip Morris, the world’s

biggest cigarette producer and number seven on the 1991 Fortune 500 list, and the Bronfman family's Seagram's, are not unknown entities in Moscow. The peculiarities of this trade are such that the Moscow government in late 1992 specifically requested of the German government that their export trade credit guarantees, extended for Russia to purchase industrial machinery produced in eastern Germany, be shifted to cover the import of western cigarettes!

According to Russian sources, it is now a widespread practice for cigarettes, imported at wholesale prices, to be paid out, calculated at going retail prices, to workers in the state enterprises. In effect, the monetarization of cigarettes is being used as a short-term hedge against budget deficits and ruble inflation. Managers of state enterprises are investing in cigarette sales and turning a profit on the wholesale-retail price spread. From the limited point of view of management, they seem to be creating more accounting freedom, although Russian sources emphasize that the "profit" is not going into purchases of new machinery for desperately needed modernization. In fact, the national economy is increasingly importing relatively useless consumer products, which at best contribute to social peace, as the argument goes, but do nothing to increase national productivity. Although Philip Morris and other cigarette companies have plans to build factories in Russia and other CIS states, in the meantime, a larger and larger stratum of the management apparatus sees its immediate interests and gain in the worst forms of Manchester capitalism.

According to Philip Morris's 1990 annual report, "In 1990, we agreed to supply more than 20 billion cigarettes to the Russian Republic. We also doubled our business in both Poland and Yugoslavia." Annual consumption of cigarettes in Russia was estimated in 1992 to be 190 billion cigarettes. As then chairman of the board and chief executive officer Hamish Maxwell stated, "And in September 1990, we reached a major agreement to export cigarettes to the Russian Republic, the largest republic in the world's third-largest cigarette market—the Soviet Union."

From 1975 to 1990, Philip Morris had an official advisory relationship with the Soviet tobacco industry. Although the breakup of the Soviet Union accounted for part of the collapse of the Soviet tobacco industry, one cannot rule out that behind-the-scenes arrangements went into effect under the cover of IMF-promoted western reforms, whereby protected, state-owned production was scuttled for the benefit of the Philip Morris deal.

### **Alcohol: the Seagram's connection**

The flood of alcohol into the East also raises interesting questions. According to Arkady Vaksberg, Russian author of the 1991 book *The Soviet Mafia*, elements of the Communist Party *nomenklatura*, which is deeply involved in black marketeering of scarce goods, were quite happy with Gorbachov's much-publicized anti-alcohol campaign, which involved reductions in state production. Under Politburo

member Yegor Ligachov, irreplaceable, century-old vineyards were destroyed. Vodka became a major black market item and its price rose rapidly. At the same time, a cottage industry for home brews developed, but was always dependent on the black market "trading mafia's" ability to draw more sugar out of Cuba (in exchange for weapons) and divert it from normal channels for distilling.

It would be very interesting to investigate Seagram's sales into the East from 1989 to the present. At the time Edgar Bronfman received a medal from East German communist party boss Erich Honecker in 1988, deals were also signed under the supervision of Alexander Schalck-Golodkowski's "Commercial Coordination" (KoKo) for an increased Seagram's role in East Germany. Presumably, Bronfman secured similar arrangements in Moscow at the time he was negotiating with Moscow on channeling emigration of Russian Jews away from the West toward Israel.

There was nothing accidental about the flood of alcohol and cigarettes into the East beginning in 1990, and there is nothing accidental about the increasingly professional crime syndicates, operating one level below the eastern trading partners of Philip Morris and Seagram's et al., which are smuggling a part of these products back into western and eastern Europe.

The Bronfman family of Canada was notorious as one of the main suppliers of whiskey and other alcohol to the Prohibition-era United States. It attained its position over the U.S. smuggling syndicates by virtue of being given a major chunk of the business by the Distillery Company of London, controllers of 50% of the world market in Scotch whiskey.

The Scandinavian countries and Germany, not previously known for large domestic black markets in cigarettes and alcohol, have experienced significant increases in smuggling since 1990. Swedish and Norwegian customs report that 1990 was the turning point for the expansion of illegal domestic alcohol sales. Norway has the biggest problem, where more than 20% of domestic consumption is from the black market. In January 1993, Swedish customs worked on a case where 100 ship containers, each holding 20,000 liters of alcohol, were contracted in the West, shipped to Tallinn, Estonia, and then on to St. Petersburg. A part of this shipment was intercepted by Swedish customs at the point of being diverted into the Swedish black market. The American chemical giant Union Carbide has been shipping large quantities of 96% pure spirits from its facilities in Holland into the East. A Russian source has stated that much of the western alcohol brought into the East is sold under consumer product labels which have never been heard of before.

Poland, already in 1989, became the model for how radical free trade and shock therapy would turn an economy over to criminals. According to Krakow law professor Michael Plachta, between January 1989 and mid-1990, some 146 new, limited liability companies imported the equivalent of 30 million liters of pure spirits. This volume equaled one-sixth of Poland's official state production for 1989. Some

## Former CIA chief hails Russian black market

Former CIA director William Colby wrote in a syndicated column last month that Italy's experience with the black market after World War II provides the best model for Russia to follow in getting out of its economic crisis. The column was published in *Die Presse* newspaper of Vienna on April 15, and the quotes given here are translated from that source.

"In 1945," Colby wrote, "Italy found itself in a situation as catastrophic as that facing Russia today. The economy was ruined, the currency was worthless, the chief means of exchange was a pack of 'Lucky Strike' cigarettes. But as the years went by, the black market was recognized; in the footsteps of the retailers came the wholesalers, following the wholesalers came the producers. . . ."

"Russia now finds itself at Italy's first stage," Colby continues, "with the pack of Marlboros replacing Lucky Strike. The black market is expanding, but it is a market which will call forth 50,000 new small retailers. These, in turn, will call forth the wholesalers and then the producers who can supply their needs."

Colby claims that this black market created Italy's postwar prosperity, not the "corrupt" state industries. Col-



William Colby: *Let them eat Marlboros.*

by, who was stationed with the CIA in Italy in the 1950s, neglects to mention that the cigarette black market was administered by the Mafia and the Camorra, crime organizations reestablished by the American occupation forces, through such intermediaries as Meyer Lansky's partner Charles "Lucky" Luciano.

75% of all invoices related to this import were falsified. Most of the imports came from West Germany. As Professor Plachta stated, "The present [1992] flood of commodities, mostly imported and distributed by an army of street dealers throughout Poland, has more in common with a black, rather than free market economy."

Cigarettes and gas were also brought in. Did Edgar Bronfman's presence in East Germany in 1988 have anything to do with the flood of alcohol out of West Germany, through East Germany, into Poland? Schalck-Golodkowski's "KoKo," under East German intelligence (Stasi) supervision, had often smuggled western-produced alcohol back into the West reaping significant hard-currency commissions.

### Cigarettes and heroin: the Balkan route

Philip Morris has a long and ominous history of involvement in the East bloc that centers on the interrelationship of cigarette smuggling and heroin trafficking, East bloc intelligence services, and the U.S. control of the Sicilian mafia and Camorra apparatus reestablished in Italy after World War II. Contacts from this period are the basis for the current expansion of commercial sales and related development of smuggling syndicates in the East. Italy has had for decades

a large black market for cigarettes dominated by Philip Morris and Reynolds brands. There are two prime routes for physically smuggling American-produced cigarettes into Italy. One involves falsification of trucking TIR documents in order to permit trucking delivery without paying customs and excise taxes on cigarettes. Another was to ship them into the East bloc, and then down to the Yugoslavian and Albanian Adriatic coast, where primarily Naples-based Camorra crime families would arrange for high-speed boats to smuggle the cigarettes into Italy.

During 1974-75, a dramatic development occurred leading to an unbroken trend of annual increases in heroin addiction in the United States and western Europe. According to numerous sources, the Sicilian mafia and Naples Camorra concluded an alliance which then drew in Turkish mafia families for a dramatic expansion of trafficking of opium products out of the Middle East Golden Crescent into the West. The start-up capital for this venture came out of an expansion of cigarette smuggling. One useful description of this is contained in the book *The Mafia* by Claire Sterling. Unfortunately, this book purports to document that the Sicilian mafia itself is the global mastermind of organized crime. The role of the United States government in releasing Meyer Lansky

associate Charles "Lucky" Luciano from a U.S. jail and sending him back to Italy to coordinate the mafia, reestablished under supervision of U.S. Army forces at the end of World War II, is only briefly addressed, and then dismissed by Sterling in a short footnote. Sterling, a close associate of U.S. intelligence consultant Michael Ledeen, also neglects to identify the direct role of Philip Morris.

## The Stasi entrepreneur: Schalck-Golodkowski

Alexander Schalck-Golodkowski, a major general in the former East German communist secret service, the Stasi, ran a special unit of the government called Commercial Coordination (KoKo). From this post, he directed a network of 148 business fronts worldwide, and was responsible for all manner of sensitive dealings with the West.

Known as "Big Alex"—and not only because of his 220-pound weight—Schalck-Golodkowski's main economic function was to gather as much hard currency as possible, for use by the Stasi in subversion operations worldwide. For example, the KoKo supervised the East German company IMES, which regularly supplied weapons to U.S. National Security Council staffer Lt. Col. Oliver North for the Contras, as well as to the warring parties in the Iran-Iraq war. The KoKo's multibillion-dollar arms-smuggling empire also worked with British, Swedish, Belgian, Italian, West German, and other western firms (see *EIR*, April 16, 1993, "Dieter Bock: Front Man for the Stasi," for Schalck's ties with Lonhro's Tiny Rowland). According to German media reports, narcotics traffic was one of Schalck's specialties.

As a reward for services rendered to the communist regime, "Big Alex" was awarded the Order of Karl Marx in 1982 by dictator Erich Honecker, and the Great Star of the People's Friendship in 1984.

Several years before the fall of communism in East Germany in 1989, Schalck and other communist bigwigs saw the writing on the wall, and began setting up secret bank accounts in Switzerland, Gibraltar, Luxembourg, and elsewhere, preparing for a new life under capitalism.

Schalck-Golodkowski now resides in a small lakeside villa in Bavaria, running new "business activities." He is currently the target of a subcommittee of the German parliament investigating the crimes of the former communist government.

In December 1991, the Italian government was of a different opinion. Under the direction of then Finance Minister Formica, the government banned the legal sales of Philip Morris in Italy, charging that the company was complicit with the smuggling networks who controlled the illegal black market, dominated by Philip Morris's Marlboro brand. Based on documentation developed by Italy's Guardia di Finanza (financial police), it was also charged that the cigarette-smuggling network was one and the same as that running the Balkan route heroin traffic. As was clear with the famous "Bulgarian Connection," the eastern intelligence services, under the KGB umbrella, played a major role in facilitating this traffic.

Sofia, Bulgaria was one of the centers for the cigarette-heroin traffic. Philip Morris had a licensed production facility in Bulgaria which was also supplying smugglers. Journalist Egmont Koch describes in the book *Grenzlose Geschäfte* the 1979 case wherein Philip Morris sold cigarettes to the Swiss-based Algrado AG, owned by Werner Denz, a man cited in 1992 in Italian press articles as a link between Philip Morris and the Camorra. The cigarettes were shipped from Antwerp, Belgium to Lisbon, Portugal, loaded onto a Greek freighter for shipment to Burgas, on the Bulgarian Black Sea coast, and delivered to Despred Zoll, a Sofia-based state trading company. Greek officials, realizing that Bulgaria had no need for importing Marlboros, since Philip Morris had a factory there, presumed that the cigarettes were in fact to be diverted for the Italian black market, and seized the ship while docked in a Greek harbor. Albania was also involved in such smuggling schemes, with Marlboro the choice brand and Philip Morris's New York City and Lausanne, Switzerland offices in touch with Werner Denz as the middleman. Cyprus ports also play a role as a centralizing and breakdown point for ship containers of cigarettes. Nicosia, Cyprus is also a major offshore banking center, including for the Serbian banks channeling dirty money for the war effort.

Like Bulgaria's Kintex state trading company, East Germany's state companies were implicated in diverting Marlboros into the Italian black market. The Schalck-Golodkowski "KoKo" apparatus funneled western-produced cigarettes, using false documentation, to the Italian black market. One East German company, Asimex, routinely handled cigarette-smuggling responsibilities. In a 1980 case prosecuted in Darmstadt, West Germany, a smuggling ring shipped 100 million cigarettes into East Germany, where they were re-documented and falsely declared, the trucks sealed in violation of the TIR international freight treaty by East German customs, and sent back into the West without paying the appropriate taxes. The cigarettes had been produced in Switzerland, shipped through West Germany to East Germany, from East Germany back into West Germany, and then through Austria to Italy. Much of the material on the East bloc role in drugs and cigarette smuggling surfaced due to the investigations of Judge Germain Sengelin of Mulhouse, France.

The French Military Mission in Berlin identified Asimex in a 1982 report on cigarette smuggling. An article in the Oct. 5, 1992 issue of the Berlin newspaper *Tageszeitung* reported that there were indications that numerous western intelligence agencies had their own people in high places in the KoKo apparatus in cooperation with the Stasi, and that many of the criminal activities in which KoKo was involved were probably joint projects. Judge Sengelin personally went after the number two official in French customs, Roger St. Jean, for protecting the joint East-West criminal activities. German police agencies are reviewing the documents of the Schalck-Golodkowski-supervised trading apparatus to confirm suspicions that figures identified in the current cigarette black market syndicates might have a Stasi background.

### **Marlboros on the German black market**

German Customs and police officials are now seizing large quantities of black market Marlboros, the prime brand on the market, every day. They expected to seize 300 million cigarettes by the end of 1992, with estimates ranging from 3-5 billion black market cigarettes retailed in Germany per annum. There are three prime sources of supply for the cigarettes: 1) free trade zone warehouses in Antwerp, Hamburg, or other ports; 2) Philip Morris's licensed plant in Poland; and 3) Red Army bases in eastern Germany. Philip Morris uses the Padhoek company warehouse in Antwerp for its U.S.-produced cigarettes. Mention of this warehouse surfaced in many of the Italian investigations into the Swiss middlemen who handled putting Marlboros in the hands of the Camorra and the mafia.

There are multiple routes for getting cigarettes into the German black market. One operation involves a company in Poland or the CIS states placing an order, which is documented for duty-free transit through Germany, but which is diverted into the black market by prior arrangement. In August 1992, Brandenburg customs officials seized 9.4 million black market cigarettes. The head of the operation was a Polish businessman from Hamburg who purchased the cigarettes from a producer in Germany and declared them duty free for export by truck transport to Lithuania. The truck was seized at the point of unloading the shipment in a forest southeast of Berlin.

Similarly, a May 1992 case in Brandenburg also involved a Polish group which ordered 100 truckloads of the British brand "Golden American" from Zevenaar, Holland. Seized documents showed the alleged destinations on the freight papers as Lithuania, Poland, CIS, and Czechoslovakia. One of these shipments, handled by a Czech trucking company, was unloaded in Glau, Brandenburg, and the empty truck driven on to the Frankfurt/Oder border crossing to Poland. The purchaser of the cigarettes was a Russian who ran a Vietnamese group of street peddlers.

The British-American Tobacco Co. (BAT), Germany's third largest tobacco producer, via its Hamburg factory, also turns up in the black market. In 1991, BAT registered a 60%



*Trucks sealed under the TIR international customs agreement do not have to be inspected at border crossings until they reach their final destination. They are used for long-haul shipping throughout eastern Europe, and are infamous as carriers of contraband.*

increase in foreign business, largely due to sales in eastern Europe and the new eastern German states. BAT is a product of a global monopoly structure set up in the 1920s by the financial interests behind the various British and American tobacco companies.

The licensed production of Philip Morris in Poland makes access to the German black market relatively easy: The smuggler can purchase cigarettes for alleged domestic consumption and then smuggle them off to Germany with falsified cargo declarations, or declare the cigarettes for duty-free transit through Germany and then divert them. Because domestic cigarette taxes in Poland are still low compared to Germany, the price spread is high enough to guarantee a smuggling profit, even if one legally purchases and pays taxes on the Polish Marlboros.

British and American customs and police agencies are currently helping to protect Philip Morris's supply system to eastern European smugglers. According to a report of the International Maritime Bureau in London, a group of con-artists, with inside knowledge of Philip Morris's black market cigarette trade, approached East European and Southeast Asian smuggling customers with favorable offers for delivery of Marlboros. The smugglers, thinking the con-artists to be a part of Philip Morris's "parallel" trading structure, took on consignments. The perpetrators presented forged freight documents that the shipments were on the way by ship, and the smugglers transferred payment. In fact, the cigarettes



*Pornography at the Frankfurt International Airport. Frankfurt has emerged in the last 20 years as one of the centers of organized crime, prostitution, and narcotics trafficking in Germany.*

never arrived and the con-artists disappeared. Few such victims ever approach the police for help. But Philip Morris is concerned that petty crooks might bring their black market sales structure into disrepute. Law enforcement cooperation with Philip Morris is not unlike that of J. Edgar Hoover's FBI with the "Murder, Inc." of Meyer Lansky and "Lucky" Luciano.

The Russian Army-based supply line is interesting and the subject of many investigations, including from Moscow. The Red Army Western Group in eastern Germany is allowed, like NATO foreign units in western Germany, to import goods for the troops, customs- and tax-free. Requisition officers began placing massive orders for cigarettes for the Western Group, again Marlboros being the main choice, and stockpiling the cigarettes at military bases. From the bases, or via prior diversion, street peddlers, often Vietnamese, run the retail sales, the lowest link in the chain. In January 1993, customs surveilled a Polish-licensed truck which drove onto a Russian military base in Schönnow, north of Berlin. Shortly thereafter, several small vans loaded with cigarettes were seized after they left the base.

### **Red Army bases used**

While the smuggling conducted from Russian Army bases is often attributed to individual officers and soldiers trying to earn hard currency before being shipped back to economic misery in Russia, it is more likely that criminal capabilities are

being developed for "stay behind" purposes, and are under the control of those KGB or GRU channels which participated in the pre-1990 East-West joint criminal ventures. From the standpoint of a Russian military command interested in maintaining military discipline, this involvement of the Moscow elite in chartering the interface with the Anglo-American "free trade" policy, with all of its criminal possibilities, brings with it serious challenges. By August 1994, the Western Group is to complete its withdrawal from Germany, and it already faces serious morale problems which are made worse when individual soldiers, who have little to do with the bulk cigarette smuggling, view and consider the sums of deutschemarks ferreted off into unknown accounts.

In a February 1993 press conference in Berlin, the commander of the Western Group, General Burlakov, denied that there were ties to a "Russian mafia" operating around and out of the bases. He noted that the Western Group doesn't control the purchasing and provisioning trade, which is largely directed out of Moscow. There is a grain of truth to this statement, because the creation of the black market in Germany ran simultaneously with Philip Morris's Moscow arrangements, which opened the flood of cigarettes into the then U.S.S.R. Large quantities of American cigarettes donated to Russia were probably the first cigarettes shipped to the Western Group, which began with a billion U.S. cigarettes sent from the U.S.S.R.

In the meantime, orders are also placed with the port-

based free trade zones. From the top, a wide network of wholesale-retail logistical capabilities were brought into play, of which the Western Group bases are merely one. According to German customs experts, manuals have been seized in raids which were given to criminals recruited to the smuggling business. The manuals were "how-to" instructions for all aspects of smuggling, founding trading companies, etc. The start-up capital to launch the business was also provided by "international financial channels."

An interesting investigation would be to identify the entities in the former Comecon zone involved in creating false invoices used to procure deutschemarks in the "transfer ruble" fraud launched after the July 1990 currency union of East and West Germany. West Germany agreed to honor all East German obligations to Comecon accounts receivable still outstanding. The transfer ruble was the accounting device to balance out trade exchanges between the Comecon countries and currencies. In the upwards of DM 8 billion fraud, state-owned or state-spawned companies all over the East produced falsified transfer ruble claims generated by nonexistent or back-dated trade orders. It is not expected that many of the deutschemarks paid out will ever be recovered. The eastern German business entities cashed in their transfer ruble claims and secretly divided up the money with the entities in the former Comecon countries that were complicit in the fraudulent invoicing. This money was not legitimately accounted for, and had to be laundered; for instance, in the founding of new import-export companies. The timing of the frauds coincided with the beginning phases of the cigarette black market expansion.

### **The 'Russian' mafia**

Ultimately, access to protection offered by secret services and to new "product" lines, like cigarettes and drugs, determines the rate of financial expansion, and thus dominance, of the many syndicates operating in the so-called Russian mafia criminal milieu at home and abroad. One of the cases handled by the Berlin prosecutors investigating the transfer ruble crimes highlights the relationship between Russian exiles in Berlin and the East German Stasi. Four people were arrested when police closed in on the group as it was about to transfer several hundred million deutschemarks to an account in Singapore. Three of the four had been on Stasi payroll lists, and one of them, Elmer Tanner, was a tax adviser to Russian émigrés in West Berlin.

During the early 1980s, thousands of largely Jewish émigrés from the Odessa region of the Soviet Union settled in Berlin. A similar exodus took place into the Brighton Beach area of New York City, home for 45,000 Soviet émigrés; northeast Philadelphia, with 7-8,000; and Los Angeles-West Hollywood. According to the German criminal investigation service BKA, 85% of West Berlin's casino-discotheques were in the hands of Russian émigrés, and were used for laundering the proceeds from weapons, drugs, and counterfeiting operations. The Berlin city prosecutor's office was

working on the "Icon Mafia," then largely dominated by Chechens who also ran prostitution and protection rackets, particularly targeting exile Russian shop owners. The fact that Moscow has undertaken no serious measures against the allegedly rebellious Chechen autonomous republic in the Russian Federation, suggests that the Chechens might have a special arrangement, and, in the criminal division of labor, a role as killers, musclemen, and enforcers.

A series of 1991-92 killings in Berlin and the "Little Odessa" section in Brighton Beach, where professional killers were sent in from Russia, suggests the degree of centralized control being asserted. It would be a bitter irony if the majority of honest Russian émigrés find themselves being terrorized by the modern version of the "Murder, Inc." of the late U.S. crime boss Meyer Lansky (born Suchovlansky), who was himself from pre-Bolshevik Russia. As the widow of Andrei Kuznetsov, killed in Los Angeles in January 1992 by a traveling Russian hit team, stated, "Some people say there's no doubt the mafia, KGB, and paid killers were involved." U.S. police sources state that the proceeds of U.S. Russian émigré fraud and crime schemes play an important role when transferred back into the former Soviet republics, where hard currency gives the crime syndicates an upper hand in the chaos of the economic shock therapy reforms. The cooperatives in Russia, the first of the Gorbachov privatized entities, have to a large degree been brought under the control of the crime syndicates.

Throughout eastern Europe and Germany there is a growing, visible presence of the Russian mafia. Press accounts from 1992 reported that the Russians now dominate organized criminal activities in Prague, where upwards of 3,000 former Soviet citizens live illegally. Even though Red Army units left Czechoslovakia in the summer of 1991, the Russian mafia maintains a presence, their membership divided between the 10-12 gangs active in the former U.S.S.R. Sidewalk shell games, often run by Romanians, Albanians, or Yugoslavs, are controlled by the CIS gangs. Due to the war in former Yugoslavia, the Czech Republic and Slovakia have become transit points for up to 80% of the Balkan route drug traffic into Europe. Prague police report that 120 companies newly founded with the involvement of Russians are believed to have gotten their start-up capital out of drug and weapons dealing. Vienna police, working in collaboration with Budapest, Prague, and Bratislava authorities, reported in 1992 that one-third of the new foundings of limited liability companies are accounted for by the Russian mafia. Other reports indicate that there is cooperation between the Russian and Polish mafias in the theft of luxury class cars, which are then sold in the East and CIS states. A press report about Görlitz, on the German-Polish border, claims that the "Polish markets" on the Poland side of the Neisse River are firmly in the hands of the Russian mafia. In Offenbach, near Frankfurt am Main, it is reported that 100 Russians with criminal backgrounds or proclivities have established themselves.



## Control of prostitution changing

A mafia-run prostitution ring out of Russia and the East is rapidly developing due to the cheaper purchase costs relative to western or Asian prostitutes. This could also lead to new relations and joint ventures with the established German bordellos. It should be kept in mind, for example, that the managers of the Frankfurt Railroad Station red light district, the Beker brothers, themselves came out of the Soviet Union in the 1960s. This district has been, along with Berlin, one of the centers of crime and narcotics trafficking in Germany over the last 20 years, and thus developments here reflect new arrangements in organized crime.

According to the Miami, Florida police, the presence of Colombian and other Ibero-American prostitutes in the Frankfurt am Main area is probably a direct arrangement related to Colombia-to-Frankfurt cocaine trafficking, which uses prostitutes as part of the infrastructure for moving the drugs. Miami is the prime coordination point for the trade in Ibero-American prostitutes globally.

The Bekers and their mentor, Frankfurt real estate magnate Yossef Buchmann, maintain good relations in the old Meyer Lansky bastions of Miami and Las Vegas, and allegedly have invested part of their proceeds in south Florida real estate. Handling street-level muscle for the Bekers is the "Yugo," (actually Serbian) mafia of Rade Caldovitch, which is active from Belgium, Holland, Luxembourg, and Germany, down to Austria. According to the book *Die Verbrecher Holding* by Jürgen Roth and Marc Frey, Caldovitch's crowd was supervised by the Belgrade secret services, which created the exile monarchist organization Ravna Gora as a front, permitting their crime operatives residence in Germany through political refugee applications. Based on federal and state criminal investigation reports and interviews, Roth has also documented on German ZDF TV the role played by this Serbian mafia in setting up a cocaine distribution system in Germany for the Cali, Colombia cartel.

Wiesbaden-based promoter Ebby Thust, convicted blackmailer of the father of tennis star Steffi Graf, was feted in November 1989 at an exclusive Wiesbaden hotel by Dan Reichartz, head of the U.S. gambling consortium Caesar's World International. Thust is reputed to have a share in a Las Vegas casino, and the event was intended to organize gambling junkets to Las Vegas. Thust, who got his start as a pimp in the Bekers' bordellos, is also a close friend of Caldovitch. Belgrade was a center of the Balkans cigarette- and heroin-smuggling business, and thus one can see the intermingling of intelligence services and organized crime that would be important for analyzing current developments. Hersh Beker is currently evading prosecution in Germany for corruption and tax fraud; he escaped to Israel from detention in Frankfurt through the intervention of the Israeli intelligence service Mossad.

A thorough investigation of these criminal manpower pools should turn up a kind of hierarchy whereby those who have performed previous services get assigned the most im-

## Philip Morris, Inc., the cash crop warrior

The Richmond, Virginia-based Philip Morris company is a modern version of the companies of the economically dependent, slaveholding South, which supplied cotton to the Manchester, England textile mills, which in turn exploited the "free markets" policed by the British Empire. The fields once tended by slaves now grow the tobacco sold to Philip Morris and Reynolds.

Tobacco exports have now become one of the major U.S. cash crops. The U.S. trade deficit would be \$5 billion bigger were it not for tobacco exports. As recently retired Philip Morris CEO Hamish Maxwell stated, "Outside the United States, most cigarettes are made and sold by government-owned enterprises; we are competing, for instance, against the elected governments of Japan, Italy, and France." Like the U.S. grain cartels, which are bankrupting domestic and foreign farmers alike in the name of free trade, the U.S. tobacco giants are a tool for the Anglo-American financial "globalization" policy.

Philip Morris carries weight in the world. In 1992, free trade proponent Dame Margaret Thatcher was hired for \$1 million as a "geopolitical consultant" on eastern

portant roles. Meyer Lansky didn't carve out his role, he was assigned his position by the Anglo-American elite who developed criminal syndicates to handle the flow of British and Canadian booze into the United States during Prohibition, and then, after the end of Prohibition, rationalized them. His Murder, Inc. apparatus, which imposed the "rationalization," worked in conjunction with and via the protection of J. Edgar Hoover's FBI. The cigarette-smuggling market is a kind of marker for the mechanics of East-West cooperation in creating a new syndicate-style crime structure in the economically devastated East.

## Financing Serbia's war of aggression

The 1991 commencement of hostilities by the Serbian authorities in Belgrade was only possible with the backing of Moscow and the Bush administration. Lawrence Eagleburger, deputy secretary of state at the time, and a prominent member of Henry Kissinger's consulting firm Kissinger Associates, worked with another Kissinger Associates partner, Lord Carrington, to ensure Serbia a free hand to perpetrate ethnic cleansing and genocide. At the same time, in order to finance the war, mechanisms were put into place to direct large sums of dirty money into Belgrade's hands to cover the costs of importing armaments, oil, and other essential goods. Serbian dictator Slobodan Milosevic was well

Europe. R.J. Reynolds hired former U.S. National Security Adviser Richard Allen for similar purposes. Craig Fuller, former Vice President George Bush's chief of staff, became a senior vice president at Philip Morris after being employed at the Washington, D.C. "fix-it" public relations giant Hill and Knowlton. According to January 1992 ABC News and CBS News televised broadcasts, Hill and Knowlton was responsible for the fake story that Iraqi soldiers had taken incubators from Kuwaiti hospitals, leaving the babies to die. One week later, Fuller was working at Philip Morris.

The company is integrated into the intelligence and covert operations side of Anglo-American strategic policy. In 1983, Philip Morris Public Affairs Director Bill Greener was recruited by career CIA official Walter Raymond, a big-wig in Oliver North's "Project Democracy" apparatus, to design a pro-Contra publicity campaign. In Panama, Philip Morris's representative, Elata Amarán, was the bagman to the Panamanian "opposition," distributing part of the tax payments of U.S. companies in Panama which had been seized and deposited with the U.S. State Department as part of economic warfare against Gen. Manuel Noriega. Elata was arrested in April 1989 in the state of Georgia by local police and the Drug Enforcement Administration, on cocaine-trafficking charges. Given the Balkan route involvement of Philip

Morris, this should come as no surprise. An early-1980s Swiss police source report describes the role of Sofia, Bulgaria in cigarette smuggling and heroin trafficking, and notes the source's identification of a Turk was in contact with Philip Morris. Other names provided to police were part of the network handling attempted papal assassin Mehmet Ali Agca.

### **C. Boyden Gray and Reynolds**

Reynolds tobacco, of Winston-Salem, North Carolina, has similar credentials. The company was primarily in the hands of the Gray family. Gordon Gray was U.S. national security adviser during 1957-60, and was a member of the President's Foreign Intelligence Advisory Board (PFIAB) until 1977. His son, C. Boyden Gray, was legal adviser to George Bush while he was vice president and then President.

Both Philip Morris and Reynolds have taken over major packaged-food producers, becoming Philip Morris/Kraft and RJR Nabisco. Philip Morris is now the third largest food producer in Europe. Both companies have been participants in the junk bond and "leveraged buyout" asset stripping of the U.S. economy in the mid-1980s. Over the last decades, both firms became cash rich, in part by using smugglers to expand markets, and are thus well placed to purchase bigger chunks of a collapsing world economy.

known to Eagleburger. As former head of Beo Banka in Belgrade, Milosevic was involved in business deals directly with Eagleburger around the Yugo car export project and other financial dealings.

Over the last 18 months, private banks and bankers surfaced in Belgrade offering 15% per month interest for hard-currency savings account deposits in their branches, and 200% per month on dinar deposits, in the face of a 25,000% annual inflation rate. With heavy unemployment and many Serbs without any source of income, the interest payments on deposits in these banks amounts to a political payoff to dampen discontent that might otherwise arise due to the economic hardships of the war effort. As one expert stated, "Somebody is financing a hidden welfare system."

Aspects of this came to light after Belgrade's Jezdomir Vasiljevic, the head of Jugoskandic Bank, fled to Israel in March 1993. According to press reports, this bank had upwards of 4 million accounts with some \$2 billion in hard-currency deposits. Where did this money come from? Although prior to the war Yugoslavia had a thriving tourism industry and small-arms export business, prompt payment of the former Yugoslavia's foreign debt of \$14 billion sucked up most revenues. The tourism industry has since collapsed and the arms production needed for the ethnic cleansing effort leaves only limited amounts for export. War booty from

conquered areas has shifted some wealth into the hands of the Serbian government, but again, not enough to make up for shortfalls elsewhere. The Russian support of the Serbian war effort with oil and weapons is generally a pay-as-you-go arrangement. Fuel coming from the West, for instance, Mobil Oil Corp.'s Thessalonika, Greece refinery, comes in at black market price markups reaching toward 400%.

Belgrade's role in the Balkan route heroin traffic gave it an entrée into the international offshore money-laundering system, and points to the source of the cash flow. The increasing activities of the Belgrade-run Serbian mafia active in western Europe is certainly one source of hard currency. A school for burglars is run in Belgrade under obvious protection of the secret services, with "graduates" rotated all over Europe, putting stolen goods from break-ins into the hands of preestablished networks of "fences." It is doubtful, however, that this source of hard-currency could have been expanded enough to cover the costs of the war effort even if one takes into account the increased role of Belgrade and the Serbian mafia in the western European narcotics market.

Some naive press accounts have claimed that the schemes of Jugoskandic and its largest "competitor," Dafiment Banka, are in fact similar to any typical investment fraud to collect other people's money by promising regular, high returns on real estate or commodity investments. Such a

pyramid or chain letter fraud functions as long as expanding volumes of money are drawn in, permitting the crook to cover the expanding number of monthly payouts as well as leaving a large sum for his own purposes. The trick is to rake in enough and disappear at the point that new cash dwindles. Allegedly, little Serbia swindled the pros in the international hot money markets.

In fact, the same people who gave Serbia the green light to start the war also arranged the financing of it. Serbia is not the organizer of this cash flow—it is the beneficiary. This occurred in part by setting up the arrangements by which Belgrade-run domestic and offshore banking channels could be used, at the cost of a commission, to launder a part of the billions in cash from primarily international narcotics trafficking every month. For this “service,” Belgrade got a cut. Standard rates for laundering cash can be from 3-7%, but under conditions of large amounts of cash generated by international illegal drug sales, traffickers can pay over 30% and still not complain. The most expensive step is almost always the first: bringing the cash into the system. Once in the system, electronic fund transfers and the maintenance of shell companies in offshore banking centers are relatively cheap.

### **The Mossad’s role**

Defina Milanovic, the head of Dafiment Bank in Belgrade, shares ownership of the bank with Israel Kelman of Tel Aviv, who holds 25% of the shares. Yugoslav Vasiljevic is currently hiding out in Tel Aviv, suggesting that the Mossad, and the dirty financial channels to which it is appended, have played an important role for the Anglo-American orchestration of the war financing. Sources familiar with Anglo-American policy toward the former “buffer state” Yugoslavia, assert that Israel’s military and the Mossad were assigned a supervisory role vis-à-vis the development of Yugoslavia’s military and intelligence establishment and weapons industry.

Banker Vasiljevic had lived abroad for 15-20 years, primarily in Australia, and had been a “war zone merchant in the Far East,” according to the London *Observer*. Perhaps an old friend of Theodore Schackley’s?

On the financial side, the arrangement would be similar to the method by which American commercial banks, threatened with bankruptcy by the 1982 Ibero-American debt crisis, were saved by the increasing flow of cocaine dollars into debt repayment. This process was managed, and had little to do with the “free market.” As German police have discovered in cases of Serbian mafiosi operating in Germany, Belgrade offers no international law enforcement cooperation and is thus probably a better black hole for laundering illegally earned money than Switzerland. Cyprus, a well-developed offshore money center, is a prime base of operations for the Belgrade bankers. Thorough investigation would probably also reveal that Belgrade’s bankers got a privileged position to invest their hard-currency holdings in the orchestrated

speculative boodoggles of the last 18 months. The geopolitical interest of the Anglo-Americans to fuel this war in Europe, despite significant public outcry, is such that the financial interests behind Eagleburger and Carrington also made black cash flows available on loan to Serbia and its banking apparatus.

The obvious success of financing the war in this way did not depend on secrecy, but on the lack of action by western interests. After six months of watching the complete regularity of the 15% payouts, everybody in Belgrade, including diplomats, knew here was something very special. The Cyprus presence of the banks was also known. Nothing was done, despite the fact that the United Nations sanctions also prohibited financial transfers to Serbia unless for medicine and related humanitarian items. As of early April 1993, the United Nations Sanctions Committee for the former Yugoslavia admitted that they had not approached the Cyprus authorities regarding the Serbian banks. The excuse was, “We didn’t have any concrete information.”

### **The ‘Polish mafia’**

It is interesting to see what companies became the rising stars in the trading and financial world of Poland under conditions of Harvard professor Jeffrey Sachs’s shock therapy reforms.

In 1989, then Finance Minister Leszek Balcerowicz introduced shock therapy by lifting the state monopoly and permitting private firms to conduct import-export trade and currency transfers. One of the big early stars of the shock therapy was the trading company Art B, founded in 1989 by three Polish jazz musicians in their 30s, with financial backing from Australia, Britain, and Israel. Profiting at first from the flood of western consumer products into Poland, Art B soon expanded into acquiring factories and negotiating joint ventures, and simultaneously participated in schemes similar to those of the Belgrade bankers. Art B served as a channel for depositing foreign currencies, allegedly borrowed from foreign financial sources at favorable interest rates, in foreign exchange accounts at Polish banks with higher interest payments on deposits. Bank Leumi in Israel and an Australian billionaire, Jack Libermann, had provided some of this financial backup. Concurrently, Art B received loans from Polish banks at favorable interest rates. With this money, Art B, with inside cooperation from the Polish National Bank and the State Bank, took advantage of the several-day lag in the bank clearing system to deposit and withdraw money such that they collected double interest payments, ultimately at the expense of the state budget.

When the scheme was exposed in August 1991, the three owners fled to Israel. The management of Art B was turned over to a Poznan millionaire, Aleksander Gawronski, and the shares of the three to the Katowice Trade Credit Bank of Ryszard Jamszewski. This bank, a large “creditor” of Art B, has since been kept alive by the Polish National Bank. Ga-

## Dope trade in Russia: 'a real gold mine'

Narcotics production and trafficking in Russia have become "a real gold mine for the criminal world," according to the cover story of the Russian weekly *New Times*, #14 for 1993 (April). There is a 1,000% return on rubles invested in the dope business. In a "chain reaction of evil," narcotics addiction is multiplying rapidly throughout Russia.

*EIR* warned in 1991 that under International Monetary Fund shock therapy, Dope, Inc. was moving into the former Soviet republics (*EIR*, Nov. 22, 1991, "Mafia Millionaires Emerge as Spoilers in the New Russia.")

*New Times* profiled the indigenous dope plantations in the former Soviet Union: the opium poppy fields of Central Asia, and the hemp valleys of the Russian Far East. There, "hundreds of illegal pickers" risk their health and their lives in the fields of Manchurian hemp. "The best and most expensive [hashish] is obtained in a rather exotic way. Having completely undressed, a picker runs through hemp thickets, shaking the pollen off on his sweating body. Then the pollen is removed from the skin, and the drug is ready for use. Running through hemp thickets, inhaling poisonous hemp vapors is a risky affair—many . . . lose consciousness and even die." *New Times* displays a photograph of a female hemp picker in action, on the front cover. Russian anti-dope operations

are hampered by the lack of fuel for police helicopters. The entire anti-hemp effort in the Russian Far East has four people on staff.

Estimates of the size of the narcotics trade in Russia range from the Russian Ministry of the Interior's 60 billion rubles, to the 1 trillion ruble figure given by "independent experts."

"Increasingly more information is obtained, that the western narco-mafia is currently taking a special interest in winning the Russian market," wrote *New Times* economic analyst Nikolai Garkusha. "According to the data by the Ministry of the Interior, late last year Russia was visited by emissaries of the Medellín Cartel," the Colombia-centered cocaine magnates.

Garkusha outlined a hypothesis about Russia's transformation into "a grand international laundry for dirty money," in which the dope trade would intersect privatization in Russia and the dumping of cheap Russian raw materials on international markets. "What can Colombian mafiosi do with devalued rubles? There's no paradox in it. Dollars and deutschemarks have actually become a kind of official alternative currency. Rubles easily exchange for 'greenbacks' in Russia. But there's also another way to launder drug money used by those new mediatory structures which, thanks to corruption reigning supreme in Russia, buy, illegally, oil and nonferrous metals for prices lower than international ones, to export to the West. Independent analyst A. Volobuyev believes that in conditions of chaotic privatization, narco-dollars and narco-rubles can be used for buying real estate."

—Rachel Douglas

wronski is the preferred local representative of several of the Seven Sisters oil cartel companies.

Early in 1992, another bank scandal hit Poland. One David Bogatin, a Russian émigré and fugitive from a 1987 conviction for fraud in New York City, had set up in 1990 the First Commercial Bank in Lublin. The bank, with \$100 million in deposits, had been offering depositors above market interest rates and was dealing in hard currencies. It was one of the first banks to offer shares on the Warsaw Stock Exchange. Bogatin had been convicted in 1987 in federal court in New York City for his involvement in a gasoline excise tax fraud run by Russian émigrés in the "Little Odessa" section of Brighton Beach, in cooperation with the Gambino and Colombo mafia families.

Here the story of Bogatin becomes very suspicious. While out on bail, by agreement with the U.S. Attorney's Office and court, awaiting his sentencing to a five-year prison term, Bogatin fled the United States for Vienna. His whereabouts was no secret, as he was arrested in Vienna several

times by Interpol, but released. The British also had an extradition request against him which was not acted upon. According to Vienna police sources, Bogatin was offering himself as an informant to the British. The same sources also emphasized that there was no great interest from the United States about Bogatin. From Vienna, Bogatin, virtually an asset of U.S. and British services, organized the 1990 founding of the Lublin bank with \$6 million. Polish bank supervisory officials, still largely the old *nomenklatura*, strangely never bothered to check with Vienna on his background when they granted him his bank license, perhaps because the Brighton Beach "Russian mafia" is often considered a joint asset of the KGB and U.S. crime circles.

The "Little Odessa" mafias of Berlin and Brighton Beach have a stranglehold on the smuggling of icons out of the CIS states. The Polish mafia is known for its role in exchanging domestically produced illegal amphetamines for luxury cars stolen in Germany. The Russian mafia procures many of these cars for sale in the CIS, often paying with icons.

## Organized crime makes power bid in Ukraine

*The narcotics mafia has moved into the very highest levels of the government of Ukraine, according to this report by Dmytro Filipchenko in the New Jersey-based Ukrainian Weekly of May 2.*

An *in camera* meeting of law enforcement officials and top-level bureaucrats was held [in Kiev] on April 12. A group of senior regional government administrators met with the head of the Security Service, Gen. Yevhen Marchuk, and the first deputy minister of internal affairs, Gen. Valentyn Nedryhailo, to discuss the problem.

A source close to the parliamentary committee on Defense and National Security suggested that among specific subjects addressed was the penetration of criminal elements into the republic's executive structures [police and administration] at the national and regional levels. Speaking to reporters after the meeting, General Marchuk said it was quite possible that entire branches of the economy and even regions of the country could fall under the complete control of the mob.

Profiting from the after-effects of the collapse of the U.S.S.R., various gaps in the existing legislation and enforcement, and a lack of regulation of economic relations between the enterprises and the state, criminal elements have created so-called "support groups" in the higher echelons

of authority in Ukraine. They have also forged strong links with international organized crime groups, and diversified their activities—primarily in banking and trade.

The principal goals of the Ukrainian mafia today are perceived to be: to obtain illegal easements in export trade; to illegally obtain raw materials; to use foreign investments to fund criminal activities (such as narcotics, production and traffic, and the sale of nuclear materials); and to embezzle humanitarian aid arriving to Ukraine from abroad.

As a result, organized crime in Ukraine is struggling to achieve control over the entire import and export system of the country, and is seeking to guarantee its continued access to hard-currency funds. They are also very interested in the process of privatization of state assets. Some government officials are allegedly forming private companies headed by relatives, through whom formerly public property passes into the hands of the underworld. Another tactic is to undermine the quality of an industrial concern to the point that it can only be sold for a minimal amount, and then purchase it privately.

Indicative of organized crime's pervasive influence, various reports in the print media in Ukraine . . . have alleged that the main reason for the removal of Ihor Yukhnovsky from his post as first deputy to Prime Minister Leonid Kuchma on March 17, was his exposure of hard-currency speculation within the country's Ministry of Health. Others allege that Dr. Yukhnovsky's sacking also forestalled his intended investigation of such practices in all ministries of the government.

## Financial laundering services

According to a German customs source, much of the money that has flowed into the East has gone there purely for laundering purposes. It goes in and comes out. As in the Polish and Serbian case, a certain portion is "parked" there to facilitate acquisitions, usually of an asset-stripping nature, and dirty political operations. According to Valentin Roshchin, head of the Moscow Interregional Drug Enforcement Bureau, "As soon as the money crosses the border of the former Soviet Union, it automatically becomes clean. Commercial shops and banks, state financial institutions all exchange money freely. No one will even ask where you have gotten the cash in the first place."

Roshchin also identified joint ventures as a major area for criminal activities in the new business world. "They present the easiest channel for laundering money if need be," he said, since 25-27% of the drug dealers in Moscow work for cooperatives or joint ventures. He described one of the many techniques which can be used. In a non-existent copper export deal, for example, "your joint venture is approached to

sell a certain amount of copper. You and your foreign partners draw up a contract. You never see the copper itself, but the company that allegedly sold it through your enterprise transfers the 'clean money' to its bank account. Your joint venture gets 15% for mediating." The variations are manifold so long as the Russian and western sides have a joint purpose.

The ruthless, unbroken drive since the early 1970s for international financial liberalization or "globalization," is based on the equation that liberalization equals no government interference, i.e., nothing is to be transparent or traceable. With the creation of exotic derivatives markets and trillion-dollar computerized global funds transfers, the usefulness of offshore banking and tax havens becomes magnified. The decline of the physical economy and parallel ruble inflation has created a situation where that small percentage of the Russian population and/or institutions which could accumulate finances, needs to have access to the mechanisms of flight capital. Like any Third World country constantly driven through currency devaluations by the IMF, it pays to structure your finances and business so that most of it is in

hard currency and preferably abroad, particularly if it comes from black market sources. The late 1991 fit of mutual allegations about shady financial dealings between Boris Yeltsin's circle and the Soviet Communist Party documents how much all factions are being seduced to launder their financial accumulations into the nooks and crannies of the international financial markets, abroad and at home, insofar as they are directly established within Russia. Like going from "soft" to "hard" drugs, once started, the participant in this process becomes increasingly addicted to the short-term monetary highs. Russian industry and mining are currently being stripped clean and dumped on the international markets to accumulate hard currencies to further participate in such schemes.

Essentially, banks in the East risk becoming as useful to the countries hosting them as did the banks in Panama when it became a major offshore banking center. Tens of billions of dollars were allegedly on deposit there, but had no useful effect on the national economy. To the extent that banks in the East function as participants in the international Casino Mondiale, they function to vacuum liquidity out of the host country, leaving behind a bankrupt physical economy and worthless currency.

### **The switch to narcotics**

It is the publicized opinion of most German law enforcement people working on the cigarette-smuggling problem that the real danger is the development of criminal expertise and networks which can easily switch over to narcotics. A primary limitation on the extension into the former Soviet Union of direct trafficking networks is the inconvertibility of the ruble. Traffickers bringing in foreign-produced drugs are confronted with merely accumulating increasingly worthless rubles. Of course, illegal domestic production for domestic sale has a different meaning, but the real issue will be whether the areas of the former Soviet Union become drug producers and exporters. In this case, the status of the ruble plays no role and, in fact, facilitates the lure of an illegal cash crop export item much in the same way that Peru and Bolivia became dependent on cocaine.

According to Russian Drug Enforcement Bureau head Valentin Roshchin, "I'm of the opinion that in a decade the Central Asian region will become for Russia what Colombia is now for the United States." The Central Asian republics, Tajikistan, Uzbekistan, and Kyrgyzstan, with many small opium poppy fields, could become a source for the world market. If global arrangements were put into place, the controllers of various criminal syndicates in the CIS states could invest rubles in opium and heroin refining, and utilize their smuggling capabilities which cover eastern Europe and reach into western Europe. To a certain extent, the U.S.S.R. had already served as a transit route for heroin and hashish coming out of the Golden Crescent of Iran, Pakistan, and Afghanistan.

### **To fight crime, end free market liberalism**

Numerous discussions by the author with law enforcement officials make it clear that the problem of combatting the new crime syndicates being developed in the East cannot be solved unless the countries in question simultaneously adopt sane economic policies that dry out the radical free market in the trade and financial sphere. Otherwise, no police agency will be able to attack the controllers of the emerging syndicates and, at the same time, respect the gray and black economic zone that is synonymous with the radical free market.

This was made extremely clear in the Italian government's December 1991 effort to break Philip Morris's decades-long role in the Italian cigarette black market. The U.S. government, along with Philip Morris, came down hard on Italy. Discussions on organized crime and heroin and cigarette smuggling were to be a purely "internal" affair, the Italians were told, and Philip Morris was not to be touched—and it was not touched. "You can't blame Philip Morris for what third parties do with their cigarettes after they're sold, that obstructs free trade," the argument went. In Germany, officials admit in private that Philip Morris is fully involved in creating the black market, but they still concentrate their enforcement efforts on the street distribution system.

It is the ultimate in hypocrisy that the United States, which loudly demands that other nations criminalize money laundering, is the leading nation, along with Britain, promoting ultra-liberalization of the international financial markets. A discussion with a leading American official at the FOPAC money laundering center at Interpol's Lyon, France international headquarters, made this very clear. This center was founded and in part run by Americans from the Internal Revenue Service. The official had been approached on the question of the role of the mid-1980s junk bond market in the United States in soaking up billions of hot, illegal cash flows, primarily the laundered proceeds of drug trafficking. The official could only comment, "It might be the case, but that's way over our head."

The Anglo-American financial interests are creating a system where criminality is promoted, but in which they retain the right to decide which criminals can participate. The role of private intelligence companies like Kroll Associates, staffed largely with former intelligence and police officials from Britain and the United States, is to help administer which criminal networks are put on the black list and which are not. Official police channels, with limited resources and oft-times politically circumscribed investigating powers, merely put the final nail in the coffin of a blacklisted group.

The involvement of Philip Morris and similar companies in the East, with elements of the KGB, corrupt elements in the Russian Army, and apparitchiks-turned-"Manchester capitalists," must be cleared out of the way if a healthy industrial capitalism is ever to develop for the benefit of the citizens of the states of eastern Europe and the former Soviet Union.