

The Baltic States and the North Eastern European criminal hub

The Baltic States (Estonia, Latvia and Lithuania), are located in what EUROPOL maps out as the *North-East Criminal Hub*. Given their geographical location on the EU's most Eastern borders, the Baltic States facilitate not only the illegal entry and distribution of goods and people within the EU, but also the making of financial crime committed through the region's financial institutions.

The North-East region of the EU is both a transit area and an important destination market for various commodities ranging from smuggled and counterfeit cigarettes to synthetic drugs, and therefore serves as a bridge between criminals operating in Russia, Belarus and Ukraine and those operating within the EU criminal environment. The Baltic States tend to play an intermediary role in facilitating the illegal flows originating in the west, such as ecstasy, cocaine and cannabis products. The region is also used as a transit area for counterfeit goods from Asia destined for the Russian market.

The EUROPOL report furthermore underlines, that the organized crime groups active in the North-East hub also look eastwards to other important destination markets, in addition to their activities in their neighboring Nordic countries and other EU Member States.

Many banks based in the Baltics have been accused of facilitating money laundering and tax evasion. ParEx Bank was particularly criticized by an article published in *Foreign Policy* in June 2009 for providing convenient means for Russians to get their money out of their home country, and has amongst other institutions come under intense scrutiny from international officials seeking to combat money laundering.

Most prominent in the region — Lithuanian organized crime groups

Although the role of organized crime groups from all three Baltic countries should not be underestimated, a central role for Lithuania organized crime seems to have emerged within the region. Lithuanian groups are acting as important traffickers in many criminal markets and regional locations, often beyond the borders of the North-East region. In some cases, Lithuanian organized criminal syndicates within the region including the Polish, Latvian and Estonian groups, may act as 'bridging groups', procuring goods from the global markets for specific sections of the regional market. The Lithuanian Organized crime groups act both as independent players and as a main regional link to EU and global criminal markets for other regional groups.

Some historical details — The influence of Russian organized crime

The collapse of the Soviet Union and the independence of the Baltic States the Russian influence, significantly impacted the development of criminal structures throughout the course of the early 1990s.

There are significant differences regarding the origins and development of organized crime in the three Baltic States and therefore rather heterogeneous organized crime structures and activities have merged in the individual states since the 1990s. In the following, the three countries, Estonia, Latvia and Lithuania will be detailed individually. The details presented are derived from research undertaken by Dr. Paddy Rawlinson a lecturer on Criminology based at the London School of Economics.

Estonia

In the early 1990s, Tallin, Estonia's capital, was ranked among the world's most violent capitals. Gang wars erupted throughout the former Soviet Union. The main protagonists listed by Rawlinson included the Riga, Perm, Novosibirsk, Krasnodar, Azerbaijan and Chechen groups. The only powerful Estonian group during this period was the Saha-Loo or 'poultry complex' group. The dominance of Russian-speaking organized crime is largely attributed to the proliferation of illegal arms and the development of the metal trade for which Estonia became a major center.

Following Estonia's independence in 1991, the Russian army withdrew from the country. This was followed closely by the implementation of the Estonian Nationality and Language Laws, which led to a marginalization of the Russian minorities from key private and public positions. So by the end of 1994 the Estonian Prime Minister felt that he could claim, that almost all Russian mafia-style criminal gangs had been eliminated.

The economic development of Estonia saw individuals linked to criminal organizations enter into many sectors of the evolving economy. These individuals were, according to Rawlinson, largely Estonian nationals and not those of Russian-speaking origin. During this period the financial sector also evolved, and with it came increased levels of economic crimes such as money laundering. Compared to the other Baltic States and Russia, the extent of economic crime in Estonia remains limited.

In 2004 two Estonian criminologists — Anna Markina and Jüri Saar, published the results of their study on cross-border



crime and Estonia's accession to the EU. They made a point of trying to balance any misperceptions noting that the flow of criminality went in two directions; i.e., from East to West and from West to East, highlighting that many questionable individuals from Western Europe had participated in the privatization of Estonia's major infrastructure in the mid 1990s. With regard to the situation surrounding economic crime following accession, their results showed that 80% of the experts questioned believed that money laundering would increase in Estonia following accession, in particular in the form of misappropriation of EU funds through fraud and counterfeiting activities.

The study also notes that the level of corruption in Estonia was among the lowest in the EU acceding countries. In 2008 Estonia ranked 27th, on Transparency International's Corruption Perception Index ("CPI"), second only to Slovenia, in Central and Eastern Europe, and positioned better than many other Western European states. It is also worth noting that, according to the MONEYVAL report published in 2008 claimed that according to EUROPOL, Estonia is among the six countries least threatened by terrorism and activities supporting terrorism. With

regard to combating money laundering Estonia overall appears to have made good progress in particular compared to Latvia and Lithuania. Nonetheless, the country remains venerable and is still believed to be used as a channel for money laundering and tax evasion.

Latvia

The transition period following the collapse of the Soviet Union left room for similarly chaotic and violent developments in Latvia, as has been described for Estonia. Unlike in Estonia however, the Russians residing in Latvia were and remained much greater following independence. Latvia was not equally as successful in its restructuring process and thus the Russian influence remained ingrained in many senior functions held by the Russian community. Rawlinson highlighted that in particular, aggressive relations became evident in the financial sector where the relationship between Latvia and Russia flourished. The large number of ethnic Russians based in Latvia's capital, Riga, fostered close ties with the burgeoning economic elite in Moscow and were, according to Rawlinson, known as the 'second wave' of criminal entrepreneurs.

The key players in the Latvian criminal scene following the elimination of the first generation of criminals (Komarnitski, Balulis and Abakumov) in the early 1990s were the Lavent and Leskov families, both linked to Vyacheslav Ivankov (aka Yaponchik), the so-called godfather of the Russian Mafia. Lavent and Leskov played a key role in the formative years of Latvia's financial services sector. In 1995 Lavent founded Banka Baltiya and was appointed President of the bank. During the same period Leskov invested funds in the rival bank Olympia. Rawlinson lists the leading Latvian criminal associations and individuals to be Ivan Hartinov (Godfather of Latvian organized crime), Bosri Raigorodski (heads the Pardaugava brigade and a former business companion of Leskov and Lavent). She highlights that, like in Russia, complex criminal networks have been formed using sporting associations (in particular boxing) to develop successful security/protection businesses and other commercial ventures.

In 2007, *Jane's Intelligence Review* noted that political corruption tax evasion, drug trafficking and other forms of smuggling, were prominent sources for money laundering in the Baltic States. Due to the region's susceptibility to the phenomenon Latvia was, according to the article, repeatedly designated as a major money laundering country by the U.S. Department of State. The country continues to be listed as one of the 'Jurisdictions of Primary Concern' in its 2009 International Narcotics Control Strategy (INCS) report.

Rawlinson notes that corruption and the subsequent integration of organized crime into Latvia's legitimate structures is systemic and that the creation of the anti-corruption program set up in 1999 is faced with much damage already done. The development of the banking sector was accompanied by corruption, fraud and misappropriation of funds allegedly also involving Latvian politically exposed persons (PEPs). This development also fostered ties between the criminal and 'legal world resulting in undemocratic structures and devastating long-term problems. Not least to mention the economic and political crisis currently facing the country as a result of the financial crisis. In 2008, after years of booming economic success, the Latvian economy took one of the sharpest downturns in the world. Latvia saw its worst riots since the collapse of the Soviet Union and is ranked amongst the Baltic States to have been the

worst affected as a result of the financial crisis. In 2008 Latvia ranked 52nd, on Transparency International's CPI.

Lithuania

In Lithuania, the Russian influence remains comparatively low due also to the fact that Lithuanians held most high-level official positions even during the Soviet period. Rawlinson also notes that the four major urban centers (Vilnius, Kaunas, Panevėžys and Klaipėda) have prevented the concentration of organized crime in any one center, which has resulted in Lithuanian crime establishing itself as a Lithuanian, regionally-dominated syndicate.

Lithuania is particularly attractive for the transit of contraband goods (cigarettes, furniture, technology, records, videos etc) as well as the illegal movement of hard currency and human smuggling due to its borders with Belarus and Kaliningrad. Rawlinson maintains that it is Lithuania's proximity to Kaliningrad, which facilitated the involvement of Lithuanian organized crime groups in the illegal weapons trade.

Like in Latvia criminal financial structures emerged in Lithuania in the 1990s. These structures were, according to Rawlinson, linked closely to foreign, in particular Russian capital.

In 2008 Latvia ranked 58th, on Transparency International's CPI, nevertheless well ahead of Romania (70th) and Bulgaria (72th). Global Integrity, who published a report on Lithuania in 2008, highlighted that although Lithuania has a solid legal framework for anti-corruption there are still significant weaknesses in government accountability, political financing, and the oversight of state-owned enterprises. The report underpinned that Lithuanian law does not provide for whistleblower protections or mandate that mechanisms be established in the civil service to receive corruption-related complaints leaving whistleblowers vulnerable to punishment by both official and unofficial means. The report noted however, that despite this, the ombudsman and the anti-corruption agency both scored well for their prompt responses to citizen complaints, their collaboration with other agencies in investigations, and their relative autonomy.

Activities among the Baltic States and within the Baltic Sea Region to combat Crime:

Transnational Crime Prevention Efforts

Christopher Ulrich, who has conducted extensive research on transnational crime

in the Baltic Sea region, outlined two forums, which emerged during the 1990s. These forums provided the necessary framework for the creation and improvement of transnational cooperation against organized crime. These forums focused on the exchange of criminal intelligence, training, material assistance, improvement of criminal legislation and the creation of treaties of extradition.

The Baltic Sea Conference on Combating International Crime was the first forum set up to encourage and promote cooperation between governments and law enforcement agencies, primarily on an operational level. Members or observers included Belarus, Denmark, Estonia, Finland, Germany, Holland, Latvia, Lithuania, Norway, Poland, Russia, Sweden, Ukraine and the Council of Europe.

The Task Force on Organized Crime in the Baltic Sea Region took over several of the technical activities and responsibilities initiated during the first forum. The second forum was primarily tasked with encouraging contact on the political and operational levels in order to help formulate and implement better cross-Baltic crime-fighting efforts. The task force concentrated on four main areas; improvement and greater exchange of information, judicial cooperation, development of concrete and operative measures, conducting surveys, assessments, and training.

To date, the Task Force concentrates its activities on the crimes outlined within the mandate of Europol. The Task Force has its mandate from the Heads of Government until the end of 2010. The members listed on the Taskforce's web site are: Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, Sweden and the European Union.

The Baltic Assembly

The Baltic Assembly is an international organization, which was established on 8 November 1991, in Tallinn with the aim of promoting cooperation between the parliaments of the Republic of Estonia, the Republic of Latvia and the Republic of Lithuania. According to its Statutes, the Baltic Assembly is a consultative and coordinating body set up to discuss joint projects and issues of common interest.


Based on the conviction that the effective fight against money laundering requires close co-operation both among the Baltic States and with other countries

and international organizations, the Baltic Assembly signed the Riga Declaration on Fighting Money Laundering in late 1996. Since this date, the Baltic Assembly has continued to recognise the threat facing the Baltic States as a result of organized crime. In 2009, under Lithuanian Chairmanship, the Committee's agenda included the following priorities: harmonization of legislation, common strategy of the Baltic States in implementing the Schengen Treaty, fight against organized crime and trafficking in human beings.

In 2007, the Nordic Council stated that its relationship with the Baltic Assembly had matured over the last years, and noted that the Baltic States are gradually adapting to changing circumstances. They praised the Baltic countries efforts as members of the European Union to combat crime.

EU efforts to combat organized crime in the Baltic Sea Region

In June 2009 the European Commission announced that it had drafted a strategy and action plan for the Baltic Sea region accounting for around 23% of the EU's population (countries included: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland and Sweden). The plan calls for the support and development of regional approaches and co-operation to combat organized crime particularly in the border regions.

As the European Union expands eastwards, the exposure to organized and transnational crime increases for the European Union as a whole, the importance of cross-border frameworks and agreements becomes self-evident. The Baltic States have, like the other new member states, implemented the third EU AML Directive and beyond this they have engaged in regional activities within the Baltic Sea region with the aim of developing effective measures and networks with which they can rise to the challenge faced by the region as a whole. The research results presented in this article have highlighted that although the Baltic States are often grouped together when discussing the region, it is important to look at each country individually, in particular in terms of its organized crime structures and their exposure to criminal activity. 

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