



# Tough Times for Tough People: Crime and Russia's Economic Crisis

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<sup>1</sup> How far can some of Russia's present troubles and future potentials be read from what's happening in the stews and shadows of its underworld? If they are any measure, then the country can expect desperation, diversification, deal-making, and destabilization. Of course, the world of the gangsters is far removed from that of the "upperworld," but some of their stories speak to the increasingly frantic efforts taking place within the legitimate economy to survive in a time of scarcity and uncertainty.

### Desperation and "Dvornik"

For desperation, one would be hard-pressed to come up with a better place than Kapotnya, in Moscow's South-Eastern Administrative District, and the story of the petty racketeer "Dvornik" ("Doorman"). Nestled uncomfortably within the multi-lane MKAD ring road, Kapotnya is hardly an appealing place at the best of times, its traffic-clogged streets (no metro here) lined with ugly late-Soviet brick low-rises, shrouded by the fumes from the massive Moscow Oil Refinery. One of the poorest of Moscow's neighborhoods, Kapotnya is known as a haven for the homeless, the hopeless—and some of the city's cheapest and more disreputable brothels.

According to Anatoly Yakunin, head of Moscow's police, 2014 saw crime in the city up by 4.5 percent. In particular, this reflects increases in handling and producing counterfeit money, drug trafficking, illegal migration and human trafficking, and official corruption. These, along with prostitution, all come together in Kapotnya. As times get harder for ordinary Russians, the impoverished souls who once would go to the neighborhood's houses of ill repute now gravitate towards the even cheaper and more desperate individual prostitutes of the streets. Facing a fall in their revenues, the brothel owners in part have diversified to selling narcotics, their premises becoming modern-day equivalents to the old opium den. There users can buy and even take cheap and destructive opiates and methamphetamines, even the infamous *krokodil*, a highly-addictive and dangerous street drug that gets its name from the way users' skin can become scaly and tinged with green. To do this, the brothel keepers typically have to get deeper into debt to the gangsters who previously just took a cut in return for leaving them free to ply their trade.

The trouble is that this kind of gangster, the small-scale local hoodlum, is also feeling the pinch. "Dvornik" is a classic example, a thug-made-moderately-good who was arrested in March and still awaits trial. His problem was that not only did he have a lifestyle to maintain that involved high-stakes gambling and imported—and thus especially expensive considering the ruble's depreciation—whisky, but he had a crew who expected to be paid and he also owed tribute to a bigger-time gangster in return for the right to practice his rackets. As one police officer involved in the case put it, "he had assumed that everything was going to go like before, or even better. He hadn't saved or made plans in case the spring ran dry."

A gang leader who can't pay his crew has no gang; a gangster who can't pay his debts has no future. As a result, "Dvornik" had no option but to lean more heavily on the businesses on his turf, not least pushing those brothel keepers all the harder. And he was not the only one, as the local cops who also expect their regular payments to turn a blind eye are feeling the pinch and

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<sup>1</sup> This paper was written for the Russian Service of Radio Free Europe / Radio Liberty. It can be accessed at, Galeotti. M. 'Khoroshie vremena dlya plokhikh parney: criminal i ekonomicheskii krizis v Rossii', *svoboda.org*, 13 June 2015, available at: <http://www.svoboda.org/content/article/27067139.html>

increasing their own demands accordingly. This is what led to his downfall; when one of his victims said he was unable to pay, “Dvornik” personally delivered a savage beating so as to deter others from pleading poverty. His victim, though, ended up in hospital; the police had no choice but to investigate and between forensic evidence and witness statements, “Dvornik” was soon behind bars. The fact that, because of the pressure on his income, he had also started to skimp on his bribes to the local police may also have had a bearing on the case.

“Dvornik” had assumed that the good times were here to stay, and when he suddenly found his income under pressure, he lacked both the financial reserves to weather any prolonged downturn and also any meaningful plan to adapt. Given that he own identity as a high-roller and his ability to pacify his underlings depended on his earnings, he was forced into what proved counter-productively violent methods to increase them. The parallels with the Russian government’s own financial planning are depressingly evident. Having failed to invest in infrastructure and wean itself off a dependence on oil and gas exports in the booming 2000s, and burnt through much of its reserves in 2008-9, Moscow now has neither the plan nor the savings to cope with the current crisis without coming under serious pressure, and in turn pushing that pressure onto ordinary Russians.

### **Diversification and “Rak”**

Some brothel keepers simply can’t cope, and their businesses fold. Those who survive, though, generally do so by diversifying into even more dangerous ventures, such as narcotics, and this in turn tends to mean that they fall further into the control of organized crime. In many cases, this means accumulating more debt. The local gangsters, themselves under pressure, will often simply sell their markers onto the larger, richer gangs in the city, those whose activities were already sufficiently diversified that they could ride out the present storm.

For example, many of the businesses on “Dvornik”’s turf have now come under the sway of “Rak” (“Crayfish”). He is the local representative of a predominantly Georgian group owing allegiance to Taniel “Taro” Oniani, one of the city’s most powerful godfathers, still running his empire from his cell in Lipetsk’s Eletskaia Krytka prison, where he is serving a ten-year prison sentence for kidnapping. If “Dvornik” is essentially a thug, a predator extorting what he can, “Rak” is a professional, a businessman, whose abilities lie in maximizing the value of those assets that come into his hands. He earned his *klichka*, his underworld nickname, because of a crayfish’s willingness to eat pretty much anything and this applies to his criminal enterprises, too.

He seems to be finding new uses for the brothels now under his sway, not least as places to launder and move counterfeit money, or reducing their running costs by staffing them with trafficked sex slaves from abroad. The depressing fact is that this actually gets the approval of corrupt local police officers: the higher the turnover of the business, and the more serious the crimes involved, then the heftier the bribes they can expect. In this way, in Kapotnya at least, Russia’s economic crisis means hard times for consumers, small businesses, and the petty gangsters and corrupt officials preying on both. The result is increased criminality, and a process which actually works to the advantage of the richer, better connected and more diversified organized crime groups, as well as an increase in corruption.

Of course, one cannot extrapolate too much from a single neighborhood, especially not one which is an impoverished and squalid outlier by Moscow's standards. (Although one could retort that Moscow is a wealthy and opulent outlier by Russia's standards.) However, as the economic crisis affects people more and more, as well as eating into spending on public services, there is a corresponding problem of general criminalization. Just as important, it is changing the balance of power and practices of the underworld and the corrupt officials who sit half-in and half-out of its shadows.

We have seen a similar process before, in 2008, when an economic crisis that saw the ruble tumble (despite the government burning through more than \$130 billion of its foreign exchange reserves) and real incomes fall almost 7 percent in twelve months. Then, as now, a traditional street-level gang involved in drug-pushing to Russians, or extorting protection money from kiosks and migrant laborers, found times getting harder as not only were its victims less able to pay, but all they could offer were rubles. Some such gangs survived, but many either went under, or were absorbed by larger groupings.

Those which did survive, had to make do by increasing the tempo of their activities. This was a time when all kinds of bottom-feeding criminal businesses, from loan sharking to home invasions, of the sort that had once been delegated to the wannabes and the out of favor, suddenly became core money earners. We are already seeing something of that now, and not just in the Kapotnyas: last year saw the all-Russian crime rate grow by 14.3 percent. Anecdotal evidence also suggests an upsurge in opportunistic extortion by officials of every kind, but also a resurgence in the use of official channels for smuggling and other criminal activities. The Main Military Procuracy, for example, is worried again about the use of military transport flights to and from Russian bases in Tajikistan to smuggle drugs into Russia, a practice it felt it had for a while managed to scotch.

### **Deal-making and "Petr Banana"**

So the (criminal) market contractions of 2008 spelled doom for some, but created great opportunities for others. The larger, more diversified groups cherry-picked those underworld assets they wanted and snapped them up at fire-sale prices. Gangs able to tap into state resources, whether government funds or the ability to flash a badge or grant or withhold a permit, did best. In other words, the 2008 crisis further strengthened the incestuous links between corrupt officials, the state machine, and the underworld, especially at the local level.

Likewise, there are exciting new opportunities for those individuals and groups able to seize them today. The very devaluation of the ruble has meant that those gangs whose businesses earn dollars, euros or other harder currencies have disproportionate domestic spending power. One of the most significant is the drug trade, primarily smuggling heroin from Afghanistan into Europe. There are also other businesses bringing in the much-wanted foreign cash. Those gangs able to offer foreign criminals money-laundering services, for example, can expect their fees in kind. Hacking is also not a ruble business, for instance, nor the international trade in women or weapons.

Thus, the greatest opportunities fall to those gangsters able to operate across Russia's borders. However, for many this will mean having to develop new connections and alliances, which in

turn bring their own complications. “Petr Banana,” for example, built up a lucrative niche criminal enterprise after the 2008 financial slowdown on the back of a small Moscow-based trucking company he took over from his older brother after the latter died in a road accident some think was actually a *razborka*, a gangland settling of scores. Initially he stuck with the existing formula of using spare space on shipments to move contraband and counterfeit, but he soon realized that there was serious money to be made smuggling heroin. By 2012, he was running monthly shipments into Belarus, for sale to a local gang which would then move it into Lithuania, and these represented his main source of income. Since 2014, though, heroin has increasingly been complemented with a new commodity being smuggled back into Russia: cheese.

After all, as “Petr Banana” discovered, after heroin and the value of hard currency earnings, the second new opportunity has come from, of all places, Belarus (and, in fairness, to a lesser extent also other bordering countries, from China and Kazakhstan, to Georgia and Azerbaijan). It has long been a turntable for all kinds of smuggling to and from Europe, with counterfeit cigarettes and heroin heading west, untaxed luxury goods passing east. Now, though, the Russian economic crisis is creating new opportunities and galvanizing old ones. As the Kremlin slaps sanctions on Western foodstuffs, consumers seeking their Italian salami and French cheeses are turning to the black market, and Belarus is one of the key suppliers. Ironically, Moscow’s efforts to prevent such sanctions-busting through the “grey market”—legitimate companies trying to bypass the control regime—has only handed a greater market share to the outright criminal smugglers, who have the years of experience and corrupt contacts to move shipments across the border.

“Petr Banana” had, though, little personal experience in either acquiring or dealing these commodities. In order to be able to break into this unexpected realm of what some call the *szery gastronom*, the “grey delicatessen,” he has had to acquire a variety of new partners. There is a Belarussian official connected with an *agrokombinat* or food and agriculture corporation, who handles the importation, recruited through a brother-in-law who is a member of the gang which buys “Petr Banana”’s heroin. Then there is an official at Rosselkhoznadzor, Russia’s Federal Service for Veterinary and Phytosanitary Surveillance, who somehow gets the shipments duly certified for sale. Finally, although some of the cheeses then end up in Moscow’s supermarkets, most are moved through corner *produkty* stores, and this required “Petr Banana” also to have to enter into a partnership of sorts with a Dagestani gang that controlled a string of them.

On one level, this is a classic example of the kind of on-the-fly entrepreneurialism that has long been a Russian strength. At present, he is selling heroin for euros and banned groceries for ample rubles, but this arrangement also carries with it distinct risks. “Petr Banana” has become dependent on corrupt officials over whom he has relatively little leverage. In this uncertain climate, he has no guarantees that they will not decide tomorrow to back away from the relationship, be arrested, or demand a greater cut. Furthermore, he has linked his fortunes with a gang from the North Caucasus with distinctly prickly relations with the Slav and Georgian groups which dominate Moscow’s underworld and a reputation for sharp practice. He lacks the kind of street muscle to resist if they decide to try and take over his business—and also the connections to be able to guarantee avoiding getting caught in the crossfire if the Dagestanis find themselves in a turf war with any of their rivals.

### Destabilization and “Vova”

After all, the current economic crisis—like that which followed the 2008 ruble collapse—means an underworld bull market for some, a bear market for many. Groups unable to take advantage of the new opportunities are suffering, but others are rising in both absolute and comparative terms, and the net outcome is an increasingly unstable underworld.

The upsurge in criminal connections with Belarus, for example, is a bonanza for the gangs of nearby Russian cities such as Bryansk and, especially—because of its location on the road to Moscow—Smolensk. These were, to be blunt, hardly glittering prizes in the Russian underworld. However, local gangs are now prospering unexpectedly because of their ability to “tax” the through-flow of smuggled goods. This gives them the extra resources to be able to attract more members, bribe officials, and invest in new criminal businesses. According to an officer of the Federal Anti-Drug Service (FSKN) in Moscow, for example, the last quarter of 2014 saw a 24 percent increase in meth labs identified in Bryansk region.

Likewise, with Crimea’s entry into the Russian Federation, those groups able to connect with local gangs there have acquired new allies and markets. Given that Crimea is still a sensitive and secure region, where the Federal Security Service (FSB) maintains an especially heavy presence, this has largely limited it to those groups already with connections with the security apparatus. The Moscow-based Solntsevo network is present, for example, but the ethnic Georgian gangs that tend to be among the first to exploit new opportunities have been warned off. February’s murder in Turkey of kingpin Vadim Ivanenko—“Vadik Krasnodar”—appears, furthermore, to have been part of a struggle for control over the Kuban, the southern Russian region closest to Crimea. What was once an underworld backwater, after all, is suddenly now a potential growth region, and bigger beasts are looking to make it their own.

The result is a renewed series of pressures on an underworld status quo that has been in place for some fifteen years now and is showing increasing signs of strain. Already the old understandings of turf demarcations and pecking orders were being brought into question by changing economic, political and even demographic circumstances. For example, once-marginal gangs were becoming rich and powerful thanks to the growing flow of heroin across Russia, now that the so-called “Northern Route” handles perhaps a third of all drug exports from Afghanistan. Most is destined for Western Europe, much for Russia itself—the country is now the world’s largest per-capita consumer of heroin—and a little even for the growing Chinese market. Likewise, as a decline in gang wars also meant less promotion into dead men’s shoes, a generation of thirty-something gangsters began to chafe at their inability to rise to the highest positions. (Consider the quiet suggestions that “Petr Banana” might even have had some part to play in his brother’s death continue to be heard.)

Even in Moscow, where the underworld is at once more complex but also more stable than in most places—not least because the state is that much less tolerant of overt gangster violence—these pressures are building. “Vova” is an example of a criminal who seems to believe his time is now, but is increasingly frustrated by the status quo. He gained his nickname because he apparently resembles Putin (Vova is a diminutive of Vladimir) and is also a martial artist, although a proponent not of the president’s beloved judo but *sambo*, a Russian combat sport. Having started as a bodyguard by day, debt collector by night, he eventually set up his own

private security firm. This had and still has a similar night and day role, providing legitimate security services and yet also being the basis for a growing array of rackets, from extortion and money laundering to organized burglary rings.

“Vova” is a thoroughly modern criminal, happy to wear a suit and hobnob with corporate clients, but also not averse to participating in the odd beating. More to the point, his willingness to engage Tajiks and Kazakhs meant that he also has acquired a foothold in the wholesale drugs industry, helping guard heroin shipments on their way to Europe and also, I suspect, setting up a meth lab somewhere in the city’s dacha belt. Combined with the hard currency earnings he makes from his “upperworld” business, “Vova” is still doing well. Indeed, he is hoping to be able to move his family to one of the *elitny* gated communities outside Moscow now being emptied as Western corporations pull their executive expats out of the country.

However, according to one of his friends, he is also increasingly frustrated. The irony is that while he could get his money out of Russia—despite the government’s attempts to encourage “de-offshorization,” illegal capital flight out of the country remains a burgeoning and easy business—his efforts to use that cash to expand his enterprises in Moscow are far harder. The reason? The existing major networks, most of which have close links with local political and police structures, are as unwilling to let newcomers such as ambitious thirty-something “Vova” into their circles as they are to allow him to develop new underworld businesses without being one of their number. This is a vicious circle that can only be broken either if the existing authorities of the city’s underworld choose to surrender some of their privileges, or if the hungrier young bloods force them to. The current economic crisis, by upsetting old hierarchies, makes the latter increasingly likely.

### **Conclusions: a fragile underworld**

Throw in human, factional and ethnic rivalries, and in many ways the Russian underworld begins to resemble Europe at the turn of the twentieth century, in which nations were feuding with their neighbors, the rising power Germany was eager for an excuse to assert its true place in the continental order and the Ottoman and Habsburg Empires were hollow shadows of their old selves. Then, Europe went through its arms races, not least the Anglo-German competition over fielding dreadnoughts. Order of a sort prevailed—until something happened to unleash all the pent-up tensions and the First World War began.

Today, likewise, as underworld tensions rise, the gangs are involved in their own arms race. One Moscow police officer put it to me that “when times are hard, everyone needs their bulls”—bulls, *byki*, being underworld slang for heavies, enforcers. But does this mean a mob war? There have been potential flashpoints before, from the 2008 crisis to the murder of Moscow-based godfather Aslan Usoyan—“Ded Khasan”—in 2013, but a combination of police action and the warnings from both Slavic and Chechen gangs prevented any wider escalation that time, so the current crisis might also pass without major incident. But it might not.



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